

Agenda Item 11
Report PR02/17

Report to	Policy & Resources Committee
Date	20 July 2016
By	Internal Auditor
Title of Report	Internal Audit Annual Report 2016/17

Recommendation: The Committee is recommended to note the content of the report, specifically:

- 1. The Internal Audit Opinion for 2016/17**
- 2. Internal Audit coverage and issues emerging.**

1. Summary

- 1.1 This report presents the Internal Audit Annual Report and Opinion for 2016/17. It is set out in full at Appendix A and includes:
 - The annual opinion on the adequacy and effectiveness of the Authority's internal control environment.
 - Internal Audit coverage and output for 2016/17.
 - Summary of audit activity.
 - Performance against Key Indicators for 2016/17.
- 1.2 The opinion contributes to the annual review of governance arrangements and the production of the Annual Governance Statement.

2. Background

- 2.1 Internal Audit is a statutory requirement for National Park Authorities under the Accounts and Audit (England) Regulations 2015. For SDNPA, it is delivered through a contractual arrangement with Brighton & Hove City Council.

3. Delivery of Annual Internal Audit Plan and Opinion

- 3.1 The 2016/17 Internal Audit plan was approved by Governance Committee at its meeting in February 2016. It included seven specific audit reviews. All reviews were completed by the year-end. There were no amendments or variations to the plan during the year.
- 3.2 Based upon the internal audit work undertaken, our overall opinion is that **Substantial Assurance** can be provided that an effective system of internal control is in place at the National Park Authority for the year ended 31 March 2017.

4. Key Performance Indicators (KPIs)

- 4.1 All targets were met for 2016/17, apart from the number of days training (per head). This has been recognised within the team and should be addressed during 2017/18. Detail on individual KPIs are included within **Appendix 1**.

5. Other Implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any resource implications?	No. The Internal Audit plan is delivered within the agreed audit fee.
How does the proposal represent Value for Money?	The Internal Audit Service is an external contract with BHCC which formed part of a wider procurement of financial services.
Are there any Social Value implications arising from the proposal?	No
Has due regard has been taken of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Any such considerations are taken into account with individual audit reviews as appropriate.
Are there any Human Rights implications arising from the proposal?	No.
Are there any Crime & Disorder implications arising from the proposal?	No, but the service includes the provision of advice and investigation of frauds and irregularities when required.
Are there any Health & Safety implications arising from the proposal?	No, but individual audits consider health and safety risks where appropriate.
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy: 1. Living within environmental limits 2. Ensuring a strong healthy and just society 3. Achieving a sustainable economy 4. Promoting good governance 5. Using sound science responsibly	No, but individual audits consider these principles where relevant, particularly around the Principle 4, "Promoting good governance"

6. Risks Associated with the Proposed Decision

- 6.1 Internal Audit has an important role to play in relation to effective risk management for the organisation. The SDNPA risk register is considered when developing the Internal Audit Plan and Strategy and the planning of individual audit reviews. Audit review and testing of controls is orientated towards these risks plus the operation controls within individual systems and services.

KATHLEEN DOWNES

Internal Auditor

South Downs National Park Authority

Contact Officer: Kathleen Downes, Internal Auditor

Tel: 01273 291318

email: kathleen.downes@brighton-hove.gov.uk

Appendices 1. Internal Audit Report and Opinion 2016/17

SDNPA Consultees Chief Executive; Director of Countryside and Policy Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Head of Governance; Countryside and Policy Managers, Planning and Technical Manager

External Consultees None

Background Internal Audit Strategy and Plan 2016/17.

Documents Individual audit reports.



South Downs National Park Authority Internal Audit Annual Report and Opinion 2016/17

**K. Downes
Internal Auditor
July 2017**



1. Introduction

- 1.1 This report summarises the internal audit work undertaken during the 2016/17. It also includes the Annual Internal Audit Opinion on the National Park Authority's internal control environment.

2. Role of Internal Audit

- 2.1 The Accounts and Audit Regulations (England) 2015 require that a relevant authority must ensure that it has a sound system of internal control which
- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - Ensures that the financial and operational management of the authority is effective; and
 - Includes effective arrangements for the management of the risk.
- 2.2 Under Regulation 5 a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.3 Under Regulation 6 a relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control required by Regulation 3; and prepare an annual governance statement.
- 2.4 For clarity, the SDNPA is a 'relevant authority' by virtue of section 2 of and Schedule 2 to the Local Audit and Accountability Act 2014.
- 2.5 The service is provided by Brighton and Hove City Council's Internal Audit Service. Our role is to provide independent and objective assurance on the adequacy of the Authority's internal control environment by evaluating its effectiveness as its contribution to the proper economic, efficient and effective use of resources.
- 2.6 The work also assists the Chief Finance Officer in the discharge of his responsibilities as the Section 151 Officer and is a key source of information for the production of the Annual Governance Statement.

3. Overview of Internal Audit work

- 3.1 The 2016/17 Internal Audit Plan included seven specific audit reviews. All reviews were completed by the year-end. There were no amendments or variations to this made during the year.

Original Plan	Status	Assurance Level *see section 7 for definitions	No of High / Medium Recs made	Direction of travel
ICT Health check	Final report	Reasonable	6	
Purchasing Cards	Final report	Limited	6	
Payroll	Final report	Substantial	1	<input type="checkbox"/> improved
Creditors/ Accounts Payable	Final report	Substantial	6	<input type="checkbox"/> no change
Awarding of Grants	Final report	Substantial	1	<input type="checkbox"/> improved
Planning Performance	Final report	Reasonable	3	
Procurement	Final report	Substantial	1	<input type="checkbox"/> no change

- 3.2 No frauds or irregularities were reported or investigated during 2016/17.
- 3.3 There were no unplanned audit reviews undertaken during 2016/17.
- 3.4 Ad-hoc support was provided to Officers and the Governance Committee during the year, including preparation of the audit plan, monitoring and reporting audit progress throughout the year, as well as responding to reports and papers received for consultation/comment.
- 3.5 There were 24 recommendations made in 2016/17. The implementation of these, and any carried forward from previous years was reported to the Governance Committee during the

year. Any recommendation not yet implemented will continue to be flagged through our regular progress reports to this Committee.

- 3.6 The internal audit coverage continues to balance the priorities for auditing key financial systems with the audit of operational processes on a three year cyclical basis. Specific provision is also made for one IT audit during the year. The table below shows the level of audit coverage over the past three years and the planned programme for 2017/18.

Audit area	17/18	16/17	15/16	14/15
Creditors	No audit	Substantial	Substantial	No audit
Main Accounting and Budget Management	scheduled	No audit	Substantial	No audit
Planning Income	scheduled	No audit	Reasonable	Reasonable
Planning (Service Level Agreements)	No audit	No audit	Reasonable	No audit
Allowances and Expenses	No audit	No audit	Reasonable	No audit
Business Continuity	scheduled	No audit	Reasonable	No audit
Declarations of Interest, Gifts and Hospitality	No audit	No audit	Reasonable	No audit
Procurement	No audit	Substantial	No audit	Substantial
HR/ Recruitment Processes	No audit	No audit	No audit	Substantial
Treasury Management	scheduled	No audit	No audit	Substantial
Income	scheduled	No audit	No audit	Substantial
Corporate Governance Processes	scheduled	No audit	No audit	Substantial
Payroll	No audit	Substantial	No audit	Reasonable
Grant Payments	No audit	Substantial	No audit	Reasonable
Whistleblowing Arrangements	No audit	No audit	No audit	Reasonable
IT Audit	scheduled	Reasonable	No audit	Limited
Health and Safety	No audit	No audit	No audit	No audit
Planning Performance	No audit	Reasonable	No audit	No audit
Purchasing Cards	No audit	Limited	No audit	No audit
Project/Programme Management	scheduled	No audit	No audit	No audit

4. Annual Opinion

- 4.1 Our annual assurance opinion is based on the internal audit work carried out during the year, together with our knowledge and understanding of the governance and control environment of the Authority. In assessing the level of assurance given, we have considered the following:
- Internal audit work completed during 2016/17.
 - Follow-up action taken following agreement and issue of final audit reports
 - The audit opinions we have given in internal audit reports,
 - Any high or medium priority recommendations not accepted by management and hence the consequential unmitigated risks,
 - The impact of significant changes to the internal control environment, and
 - That our work undertaken has been of a professional standard in accordance with the Public Sector Internal Audit Standards.

Based upon the internal audit work undertaken, our overall opinion is that **Substantial Assurance** can be provided that an effective system of internal control is in place at the National Park Authority for the year ended 31 March 2017.

- 4.2 Where our audit work has highlighted specific weaknesses, recommendations have been made in the individual audit reports. We will continue to work with management to ensure the implementation of these actions within appropriate timescales.

5. Summary of audit activity

- 5.1 Seven audits were completed during 2016/17. Four concluded Substantial Assurance, with no significant concerns made.
- 5.2 The review on Purchasing Cards was the only Limited Assurance report during 2016/17. Our work identified that 30% of expenditure was not being reviewed by the card holder and further, 76% of expenditure had not been approved by an authorising officer. There was a high risk that expenditure may be incurred which was not legitimate or in accordance with the purchasing card policy. Significant actions have been taken during 2016/17 and the last progress report to Governance Committee reported compliance at 97.6% and 99.2% respectively.
- 5.3 The ICT Healthcheck audit, concluded Reasonable Assurance. Overall, systems were found to be mature and well established. The main recommendation was to create a Corporate Risk for cyber-security. Corporate Risks reported to each Governance Committee and subject to critical review.
- 5.4 The Planning Performance audit also concluded Reasonable Assurance. It identified a need for improved documentation of processes and a review to better understand why the level of appeals outcomes was significantly below target. This piece of work is scheduled to be undertaken during 2017/18 and will include:
- what decisions were made to result in the appeal,
 - what were the grounds of appeal and if the recommending officer made sufficient justification in the reasons for refusal,
 - if conditions imposed were reasonable and proportionate; and
 - did the inspector consider and give any weight to the policy grounds relevant to National Park Purpose and emerging policies.

The Governance Committee also asked that the review includes an appraisal of appeals from host authorities.

6. Key Performance Indicators

- 6.1 Appendix D of the 2016/17 Internal Audit Strategy and Plan included a number of performance indicators for the delivery of the internal audit service. Performance against these targets is shown below.

Aspect of Service	Performance Indicators	Target	Delivered
Cost and Quality of Input	<ul style="list-style-type: none"> • Planned days delivered 	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • 100%
Productivity and Process Efficiency	<ul style="list-style-type: none"> • Achievement of annual plan (%) • Issue of draft report after completion of fieldwork • Issue of final report after agreement with client of draft 	<ul style="list-style-type: none"> • 95% Minimum • Within 10 Days • Within 10 Days 	<ul style="list-style-type: none"> • 100% • 100% • 100%
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards 	<ul style="list-style-type: none"> • 100% compliant 	<ul style="list-style-type: none"> • Self-assessed as compliant

Aspect of Service	Performance Indicators	Target	Delivered
Our Staff	<ul style="list-style-type: none"> Professionally Qualified Annual Training & Development Received 	<ul style="list-style-type: none"> 80% 5 Days 	<ul style="list-style-type: none"> 100% 3.5 days

7. Internal Audit – Assurance Levels

- 7.1 Our reporting includes an opinion on how well the internal control environment is operating. There are five categories, and the definitions for each are detailed in the table below.

Assurance Level	Assessment
Full	There is an effective system of control designed to ensure the delivery of system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
Substantial	Whilst there is an effective system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
Reasonable	Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.
Limited	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance leading to an increased risk of loss to the Authority. Not all major risks are identified and/or being managed effectively.
No	Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the Authority. A high number of key risks remain unidentified and/or unmanaged.

