

Report to	Policy & Resources Committee
Date	19 September 2017
By	Internal Auditor
Title of Report	Internal Audit Progress and Implementation Report

Recommendation: The Committee is recommended to note progress against the Internal Audit Strategy and Annual Plan (2017/18) and the implementation of recommendations previously made.

1. Summary and Background

- 1.1 This report details progress against the Internal Audit Strategy and Annual Plan 2017/18 including reports that have been issued and the implementation of recommendations.
- 1.2 The Internal Audit Strategy and Annual Plan 2017/18 were approved by the Governance Committee on 25 February 2016. It specifies the framework to deliver the service that ensure the most appropriate use of internal audit resources to provide assurance on the Authority's control environment and management of risks.
- 1.3 The plan sets out an annual schedule of those systems, services and functions to be covered. These include the audit of core financial systems.
- 1.4 The delivery and monitoring of this work plan is core to providing a systematic and risk based approach to the internal audit of the Authority's systems and services.
- 1.5 Tracking of recommendations ensures that agreed control improvements are implemented.

2. Progress against the Audit Plan for 2017/18

- 2.1 There have been three reports issued since the last Policy & Resources Committee meeting. Due to the sensitive content of the Cyber Security audit review, this has been reported separately under a Part 2 progress report.

Audit Plan	Status	Assurance Level ¹
Treasury Management	Final report	Substantial
Main Accounting & Budget Management	Final Report	Substantial

¹ Assurance opinions are defined in **Appendix 1**.

- 2.2 A copy of the Executive Summary for each audit is attached at **Appendix 2**. In addition, a full copy of the final report is sent to the Chair, Deputy Chairs and Independent Members of the Policy & Resources Committee

3. Additions, deletions and amendments to the Audit Plan

- 3.1 There have been no changes to the 2017/18 Audit Plan to date.

4. Implementation of Recommendations

- 4.1 **Appendix 3** provides a list of those recommendations from previous audit reports which have not yet been implemented. Of these 2 have not yet reached their implementation due dates and 4 are overdue for action.

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 should be 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.

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Appendices
 1. Assurance Opinions – Definitions
 2. Executive Summary reports
 3. List of recommendations that have not been implemented.

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

External Consultees
 None

Background Documents
 Internal Audit Strategy and Plan 2017/18.
 Individual audit reports.

Assurance Opinions - Definitions

Categories of Assurance	Assessment
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Executive Summary – Treasury Management

1. Introduction

- 1.1 The South Downs National Park Authority receives grant funding on a quarterly basis from the Department for Environment, Food and Rural Affairs. Unspent balances are invested to achieve investment income.
- 1.2 As at July 2017 £5m was invested between Lloyds TSB and Santander on behalf of the authority.
- 1.3 The Loans & Technical Team within Brighton & Hove City Council undertakes the Treasury Management function (loans and investments) on behalf of SDNPA.
- 1.4 The Treasury Management Policy Statement and Annual Investment Strategy for 2017/18 was presented to and approved by the South Downs National Park Authority on 30th March 2017.
- 1.5 The objective of the audit is to provide assurance that controls are in place and are operating as expected to manage key risks to Treasury Management, which were last subject to an internal audit review in 2015/16. The previous internal audit report (issued in February 2015) provided the audit opinion of 'Substantial Assurance' over the Authority's arrangements, no recommendations were made.
- 1.6 This audit is part of the agreed Internal Audit Plan for 2017/18.
- 1.7 This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1 The scope of the audit was to ensure:
 - Policies and procedures are reviewed annually and properly approved.
 - Treasury transactions are correctly recorded, and regularly reconciled with bank statements and with the general ledger.
 - Cash flow forecasts are accurately made and regularly updated.
 - Investments are made with approved counterparties within approved limits, are correctly paid and are repaid by counterparties with the correct amount of interest.
 - Officers and elected members receive regular and informative monitoring information on the full range of risk/investments.
 - SDNPA balances held overnight by BHCC and values put out on longer term lending are clearly separated and identifiable.

3. Audit opinion

Substantial Assurance is provided in respect of Treasury Management. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

4. Basis of Opinion

- 4.1 We have been able to provide Substantial Assurance over the controls operating within the area under review because:
 - Adequate governance and fidelity insurance arrangements exist for Treasury Management activity.
 - Medium to long term cash flow monitoring is managed by the BHCC Treasury Management Team. The Cash and Banking Team conduct a daily cash flow review and

any surplus over £50k in the SDNPA bank account is transferred into the BHCC bank account for investment.

- All supporting evidence relating to the five £1m investments made on behalf of the Authority as at July 2017 was subject to review and testing. We were able to confirm that:
 - Investments were made with institutions as permissible within the Investment Strategy
 - All investments are valid and made by approved staff
 - All calculations are checked to supporting documentation
 - The approved terms had been confirmed in writing.
- In addition to the £5m invested, BHCC hold additional funds on behalf of the Authority as short term investments and cash balances (£5.5m short term and £50k cash balance as at 17/07/17). These balances are clearly and separately identifiable from BHCC balances in both the General Ledger and the Treasury Management software.
- Credit ratings for counterparty's are reviewed and amended daily to ensure no investments are made that breach investment limits. There have been no breaches of lending limits during the year.
- A quarterly monitoring report is provided to Senior Management Team and to Members through the Governance Committee.
- Investment transactions relating to SDNPA are limited and are therefore not subject to an independent reconciliation between treasury management software and the general ledger, however it is recommended that formal quarterly reconciliations are still carried out, authorised, and evidenced. We note that Treasury Management transactions are still reconciled to the bank account by the Cash and Banking Team.

5. Action Summary

Risk Priority	Definition	No
High	Major control weakness requiring immediate implementation	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	1
Low	Represents good practice but its implementation is not fundamental to internal control	
Total number of agreed actions		1

Executive Summary - Main Accounting & Budget Management

1. Introduction

- 1.1 The purpose of this audit is to review the budget management processes operating within the Authority to ensure there is effective financial management of resources in order to deliver statutory duties and priority functions. As well as reviewing the main accounting system controls to ensure all expenditure and income is recorded correctly allowing the accurate preparation of final accounts, financial returns and budget monitoring reports.
- 1.2 SDNPA's Main Accounting & Budget Management systems and processes were subject to an internal audit review in 2015/16. The internal audit report, issued in September 2015, provided the audit opinion of 'Substantial Assurance' for these areas.
- 1.3 The Authority approved and set a budget of £11.57m in line with statutory deadlines for 2017/18.
- 1.4 This audit is part of the agreed Internal Audit Plan for 2017/18.
- 1.5 This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

- 2.1 The scope of the audit was to ensure:
 - There are effective processes for the co-ordination and approval of budgets;
 - Timely and "fit for purpose" budget-monitoring reports are provided to senior management and elected members;
 - Controls are in place to ensure that all transactions from feeder systems are recorded accurately and completely within the Main Accounting System;
 - There is effective control over accounting journals, virements, and suspense accounts.

3. Audit opinion

Substantial Assurance is provided in respect of Main Accounting & Budget Management This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

4. Basis of Opinion

4.1 We have been able to provide **Substantial Assurance** over the controls operating within the area under review because: There are effective processes for the co-ordination, reviewing and approval of budgets;

- Robust controls are in place to ensure that all transactions from feeder systems are recorded accurately and completely within the Main Accounting system;
- Our testing demonstrated that the controls in place over accounting journals, virements, and suspense accounts are working as expected;
- Following on from a change in governance arrangements approved in July 2017 amendments to Financial Regulations and Standard Financial Procedures are now required;
- Improvements to the timeliness of budget monitoring reporting specifically the first quarter's report to the September P&R committee would allow Members to review and scrutinise budget performance in a timelier manner.

5. Action Summary

Risk Priority	Definition	No
High	Major control weakness requiring immediate implementation	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	2
Low	Represents good practice but its implementation is not fundamental to internal control	
	Total number of agreed actions	2

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List of recommendations that have not been implemented.

(All recommendations are graded as High, Medium or Low priority).

Overdue Recommendations

Audit	Recommendations (with priority)	Due	Update (yellow highlight from previous report)
Planning Income (2015/16)	(R1) A process for reconciling and identifying Refunds and Unidentified Income should be developed to ensure that the income reconciliation process is complete and effective. (Medium)	01/03/16 Revised to: Dec 17	Meetings with B&H Finance were rescheduled on a number of occasions from the initial date in May, due to a staff member at Brighton being off ill, and this has been identified as a single point of failure as no alternative staff member was able to assist. Meeting confirmed for 11th Sept, but this provides no time to have agreed processes by end September. Anticipate agreement by end of Sept with all procedures defined, tested, live and post live issue resolution complete by place by end December 2017.
Planning Income (2015/16)	(R4) A document which clearly identifies the process for reconciling the income held by LPA's and all parties' roles and responsibilities within the process should be produced. (Medium)	01/09/16 Revised to: Dec 17	Meetings with B&H Finance were rescheduled on a number of occasions from the initial date in May, due to a staff member at Brighton being off ill, and this has been identified as a single point of failure as no alternative staff member was able to assist. Meeting confirmed for 11th Sept, but this provides no time to have agreed processes by end September. Anticipate agreement by end of Sept with all procedures defined, tested, live and post live issue resolution complete by place by end December 2017.
Purchasing Cards	(R1) That training tailored to SDNPA is developed and rolled out (Low)	30/12/16 Revised to: Dec 17	Due to staff absences and other high priority actions, this has been delayed. Revised implementation date December 2017.
Grant Payments	(R1) Procedures for handover and retention of evidence are required when key staff leave. (Medium)	30/06/17 Revised to: Dec 17	Due to higher priority actions, this has not been implemented yet. Revised implementation date December 2017, or in the next iteration of project guidance whichever is sooner.

Recommendations not yet due

Audit	Recommendations (with priority)	Due	Update
Planning Performance	(R1) A formal procedure covering the production and submission of the quarterly DCLG statistics, including the (internal) checking of data quality to be produced (Medium)	30/09/17	On track
Planning Performance	(R3) A review of why the level of appeals allowed is higher than target to be undertaken. (Medium)	30/03/18	The Performance and Technical team have started this review and will report to Members in Q3 or Q4.