

Agenda Item 8
Report PRI9/20-09

Report to	Policy & Resources Committee
Date	26 September 2019
By	Internal Auditor
Title of Report (Note)	Internal Audit – Progress Report

Recommendation: The Committee is recommended to note:

- 1) Progress against the Internal Audit Strategy and Annual Plan (2019/20) and**
- 2) The implementation of audit actions previously agreed by management.**

1. Introduction

- 1.1 This report details progress against the Internal Audit Strategy and Annual Plan 2019/20, including reports that have been issued and the implementation of actions.
- 1.2 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.
- 1.3 Tracking of actions ensures that agreed control improvements are implemented within agreed timescales.

2. Policy Context

- 2.1 The Accounts and Audit Regulations require that 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*”.
- 2.2 The Internal Audit Strategy and Plan, which was approved by Policy & Resources Committee on 25/04/2019 provides a key mechanism for providing assurance that the Authority's internal control, risk management and governance arrangements are effective.

3. Issues for consideration

Progress against Audit Plan for 2019/20

- 3.1 There have been two reports issued since the last progress report to this committee.

Audit Title	Status	Assurance Level ¹
Strategic ICT Risk Review	Final Report	Reasonable
VAT	Final Report	Substantial

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

- 3.2 A copy of the Executive Summary for each finalised audit is attached at **Appendix 2**. With regard to the Strategic ICT review, the detailed risks have been redacted.
- 3.3 There have been no changes made to the 2019/20 Internal Audit Plan. However, we have additionally been commissioned by SDNPA to undertake EU grant certification work.

Action Tracking

3.4 **Appendix 3** provides a list of those (High & Medium) agreed management actions from previous audit reports which have not yet been implemented. There is one overdue action requiring attention although it is partly complete. There are five actions not yet due.

4. **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 provided through a contract with Brighton & Hove City Council which formed part of a wider procurement of financial services.
Are there any Social Value implications arising from the proposal?	No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Any such considerations are taken into account within 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 Data Protection implications?	No, but individual audits consider GDPR issues where appropriate.
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy:	No, but individual audits consider these principles where relevant, particularly around the Principle 4, "Promoting good governance"

5. **Risks Associated with the Proposed Decision**

5.1 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 Strategy and Plan and the planning of individual audit reviews. Audit review and testing of controls are orientated towards these risks plus the operational controls within individual systems and services.

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Appendices	<ol style="list-style-type: none"> 1. Assurance Opinions – Definitions 2. Executive Summary extract reports 3. List of actions that have not yet been implemented.
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Head of Governance; Business Service Manager
External Consultees	None
Background Documents	Internal Audit Strategy and Plan 2019/20. Individual audit reports.

Assurance Level 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 – Value Added Tax

1. Introduction

- 1.1 VAT is a tax on transactions affecting most entries in the Authority's main accounting system and there are significant financial implications if it is not accounted for correctly.
- 1.2 Misinterpretation of legislation and HMRC's power of assessment means that the Authority is always exposed to the risk of penalties, interest and detailed investigations that can go back four years. In addition the Authority should ensure that it maximises the opportunity to reclaim VAT where it is allowed to do so.
- 1.3 The value of input VAT for 2018/19 was approximately £560k and output VAT was £42k.
- 1.4 This review is part of the agreed Internal Audit Plan for 2019/20.
- 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 purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Systems, procedures and guidance are in accordance with the latest statutes, regulations and HMRC guidance;
 - VAT is recovered from HM Revenue & Customs accurately, promptly and efficiently;
 - To ensure that the correct VAT rate is applied (standard, zero rated and exempt) to both input and output computations and invoices.

3. Audit opinion

Substantial Assurance is provided in respect of VAT. 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:
- 4.2 Preparation of the quarterly VAT return is supported by good quality procedure notes and progress is being made to ensure that SDNPA is compliant with VAT going digital from October 2019.
- 4.3 Partial exemption claims are made annually (in September) and the percentage for 17/18 was 2.77% so under the HMRC 5% threshold.
- 4.4 A sample of creditor and debtor invoices were tested and found to be VAT compliant.
- 4.5 The procedure notes held on the SDNPA intranet giving guidance for staff were found to be outdated and missing important information to ensure maximum compliance with the VAT regulations.
- 4.6 Approximately £500k VAT was recovered on behalf of SDNPA for 2018/19. However receipt of the quarterly amount from HMRC is currently by cheque, posted to the old SDNPA offices which were vacated five years ago. This delays payment into SDNPA's bank account and increases the risk of the payment going astray.

Executive Summary – Strategic ICT Risk Review

1. Introduction

- 1.1. The South Downs National Park Authority faces a number of ICT-related risks, which can have a potentially serious impact on service provision and data security. It is therefore important that the authority has a robust risk management regime in place to minimise these risks.
- 1.2. This audit considered whether all such ICT risks have been identified and formally recorded appropriately and whether the ICT risks identified by the authority on the Corporate Strategy Risk Register have appropriate controls and mitigating activity associated with them, and that these are operating as expected.
- 1.3. This review is part of the agreed Internal Audit Plan for 2019/20.
- 1.4. 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 purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - All appropriate strategic ICT risks have been identified and recorded.
 - For identified ICT risks, appropriate mitigating activity and controls are in place and operating as expected.

3. Audit opinion

Reasonable Assurance is provided in respect of Strategic ICT Risk Review. This opinion means that most 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 Reasonable Assurance over the controls operating within the area under review because:
- 4.2. In conducting the ICT Risk Review we found that, all appropriate strategic ICT related risks the authority faces had been identified. We identified two additional risks that should be considered for inclusion on the risk register.
- 4.3. We found that, where ICT related risks had been identified by the authority, suitable controls were in place and found to be effective in managing these risks.

List of agreed actions that have not yet been implemented.

(For actions graded as High or Medium priority).

Actions overdue for implementation

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
Code of Conduct (Members & Officers)	<u>Officers Code of Conduct</u> We will review the Code, and compare ourselves against other National Parks and BHCC for good practice. (Medium)	Original - 30/07/19	Head of Governance update: Review is nearing completion. Final adoption of the revised code of conduct is on the agenda for the OMT/SMT meeting on 14/10 for approval.

Actions not yet due

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
ICT Strategic Risk Review	We will consider whether the identified risks should be added to the risk register and/or whether further mitigation can be put in place. (Medium)	Original - 30/10/19	ICT Strategy Manager update: Review documents currently being prepared for those identified risks.
VAT	The VAT officer will contact HRMC to request a BACs payment and to update the address held on file for SDNPA. (Medium)	Original - 31/10/19	BHCC, Tax Manager update: This is on track.
Code of Conduct (Members & Officers)	<u>Staff Declarations Of Interest</u> SDNPA is planning a move to using BHCCs HR module (PIER) from April 2019. Within this, there is a declaration of interest option, which links directly to an individual's line manager for approval and provides good functionality for reporting and review by senior management. We will investigate the feasibility of utilising this alongside a move to annual declarations for all staff. (Medium)	Original - 30/10/19	Head of Governance update: This is on track. Pier has now been rolled out across the authority and the new requirement has been included in the revised officer code of conduct
Code of Conduct (Members & Officers)	<u>Declarations of gifts and hospitality</u> We have considered having a minimum value (for gifts/hospitality) included within the Code of Conduct. However, we wish to encourage any and all gifts/hospitality to be declared, so have decided against having a minimum value stated within the Code.	Original - 30/10/19	Head of Governance update: New requirements for the declaration of gifts and hospitality are included in new code of conduct for officers. Member code of conduct is currently under review.

List of agreed actions that have not yet been implemented.

(For actions graded as High or Medium priority).

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
	<p>We also believe it is more important to record the offer, rather than being prescriptive over the form to be completed. However, we will look to review the form to include a fiscal value and to make it explicit if the Chief Exec approves/rejects it.</p> <p>Gifts and hospitality offered to the Chief Exec will be formally scrutinised and approved by a senior member of staff in consultation with the Chair of SDNPA.</p> <p>(Medium)</p>		
Performance Management	<p>We will look at introducing SMART targets for our highest key priority areas. However as an organisation we have developed measures of success.</p> <p>(Medium)</p>	Original – 30/10/19	<p>Performance and Research Lead update:</p> <p>We will ensure this is done for the Corporate Plan 2020-25 as this will be a five year Corporate Plan which will enable us to set targets and measure trends.</p>