

**Agenda Item 8
Report PRI9/20-19**

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| Report to | Policy & Resources Committee |
| Date | 28 November 2019 |
| By | Internal Auditor |
| Title of Report (Note) | Internal Audit – Progress Report |

Recommendation: The Committee is recommended to:

- 1) Note progress against the Internal Audit Strategy and Annual Plan (2019/20).**
- 2) Note 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 |
|---------------------|---------------|-------------------------------------|
| Treasury Management | Final Report | Substantial |
| Asset Management | Final Report | Reasonable |

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**.
- 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 just one overdue action that is part implemented. There are six agreed 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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for South Downs National Park Authority

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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 – Treasury Management

I. Introduction

- I.1 SDNPA’s Treasury Management Policy Statement and Annual Investment Strategy were approved by the Authority on 28 February 2019.
- I.2 Treasury management is defined as ‘the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.
- I.3 The Treasury Management function is undertaken on behalf of SDNPA by Brighton & Hove City Council under its contract for the provision of financial services.
- I.4 As at 31/03/19, the Authority has no external borrowings. It has £9.7 million of investments as shown in the table below:

| Investment | Amount £’000 |
|-------------------|--------------|
| Lloyds Bank plc | 3,000 |
| Santander(UK) plc | 3,000 |
| BHCC | 3,700 |

- I.5 The Authority’s treasury management activities are regulated by a variety of professional codes, statutes and guidance. SDNPA has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the service in compliance with this code.
- I.6 This review is part of the agreed Internal Audit Plan for 2019/20.
- I.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 purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
 - The Authority has established an appropriate treasury management policy and investment strategy.
 - All treasury management decisions are based on robust cash flow forecasting.
 - Investments are made with approved counterparties within approved limits, are correctly paid over, and repaid with the correct amount of interest.
 - There is regular and independent reconciliation between the treasury management record, the bank account and the general ledger.
 - Officers and Members receive regular and informative training and performance monitoring information.

Executive Summary – Treasury Management

3. Audit opinion

Substantial Assurance is provided in respect of Treasury Management. 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 SDNPA has set out its investment strategy in the Treasury Management Policy and Treasury Management Practice Statements alongside the Annual Investment Strategy, which has been approved.
- 4.3 Progress and performance against the policy is monitored and reported during and at the end of the financial year, as required by the CIPFA Code. Investment performance has been consistently above the (7 day LIBID¹) benchmark rate for the last year. For January to March 2019 the benchmark rate was 0.57%, and the period average (across BHCC, Lloyds & Santander investments) was 1.03%. During this period the Bank of England base rate was 0.75%.
- 4.4 Quarterly reconciliations are undertaken, reviewed and authorised.
- 4.5 There has not been any training for Members on treasury management for several years. Training is important in assisting Members when making decisions around the relevant strategy and policy.
- 4.6 It should be noted that the Authority has not undertaken any borrowing; therefore, these controls were not tested.

¹ The London Interbank Bid Rate (LIBID) is the average interest rate at which major London banks bid for currency, used as a national benchmark rate.

Agenda Item 8 Report PR19/20-19 Appendix 2

Executive Summary – Asset Management

1. Introduction

- 1.1. At the end of 2018/19 the SDNPA non-current asset register detailed £1.8m in land and buildings and a further £0.2m in relation to vehicles, plant, furniture, and equipment.
- 1.2. The SDNPA Capital Strategy 2019/20 provides an outline of the Capital Programme which has a total capital financing budget of £0.171m for 2019/20 of which £0.032m is from capital and earmarked reserves, £0.130m from direct revenue funding and £0.009m is received from an insurance settlement. The Capital Strategy includes three new capital schemes including an additional vehicle (£0.021m), a vehicle replacement (£0.020m) and the acquisition of a scrub management machine (£0.040m). The Capital Programme also includes a £0.090m investment for the National Park Signage project that has been previously approved by the Authority.
- 1.3. The objective of the audit was to provide assurance that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
- 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 scope of the audit was to provide assurance that controls are in place to meet the following objectives:
 - Ensure that there is a funded and approved capital strategy.
 - Information to effectively monitor asset management, including additions and disposals, is available and used to effectively manage the asset record.
 - Assets are appropriately insured.
- 2.2. This audit forms part of the agreed Internal Audit Plan for 2019/20.

3. Audit opinion

Reasonable Assurance is provided in respect of Asset Management. 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:

Executive Summary – Asset Management

- 4.2. SDNPA has a funded and approved capital strategy. However following a change in committee structure the Policy and Resources Committee cannot approve new capital expenditure. This is not reflected in the Authority's current Financial Procedures.
- 4.3 The Authority has information to monitor asset management, including additions and disposals. Whilst the items on the asset spreadsheet are also verified annually (excluding ICT equipment), this check is undertaken, with a colleague, by the officer who maintains the spreadsheet and the date of the checks are only evidenced in their Outlook calendars. There is no minimum value for items to be included on the spreadsheet resulting in a high number of low value items.
- 4.4 There is no annual routine check of ICT equipment although as a result of the records being migrated to a new asset database earlier this year a check was undertaken resulting in the Authority being unable to physically locate nine items. The estimated overall value was less than £0.5k.
- 4.5 It is possible to delete assets from both the ICT Asset Database and the main asset spreadsheet maintained by SDNPA. ICT records are, however, not removed in practice but their 'status' is changed. The only way to identify any removed records from the main asset spreadsheet would be to compare the current and previous versions.

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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) | <p><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. 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. 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. (Medium)</p> | Original - 30/10/19 | <p>Head of Governance update:</p> <p>New requirements for the declaration of gifts and hospitality are included in new code of conduct for officers. Revised Code of conduct for officers has been agreed.</p> <p>The Member code of conduct is currently under review. A revised code of conduct for members will be presented to the NPA in December for approval.</p> |

Actions not yet due

| Audit | Agreed Actions (with priority) | Due | Officer Responsible / Update |
|------------------------|---|---|--|
| Treasury Management | A treasury management training session (delivered by Link Advisory Services) has been arranged for all Members in November 2019. (Medium) | Original – 30/11/2019 | This will be complete at the time of this P&R meeting |
| Performance Management | We will look at introducing SMART targets for our highest key priority areas. However as an organisation we have developed measures of success. (Medium) | Original – 30/10/19 Revised - 01/04/2020 | <p>Performance and Research Lead update:</p> <p>I am currently working on the Corporate Plan 2020/21 and am making sure the majority of the indicators are measures rather than actions and SMART where feasible. With a new five year Corporate Plan, I will also work to ensure our indicators can be measured over five years so we can report on trends where we have not done so in the past.</p> |
| Asset Management | Where an annual check is undertaken evidence will be retained for inspection as it may be used to supply | Original - 31/3/2020 | Facilities and Property Officer. |

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>information for insurance purposes or to the Police in the event of a theft.</p> <p>The spreadsheet could be updated to include, for example, a tab which confirms what was checked, discrepancies in the register (if any), when the check was undertaken and by whom. Discrepancies should be investigated and the outcomes recorded.</p> <p>Annual checks will not be undertaken by the same officer that maintains the asset spreadsheet. (Medium)</p> | | |
| Asset Management | <p>With regards to ICT equipment, an annual report will be produced identifying which assets have not been seen within the last 12 months and it will be confirmed that these items can be located. (Medium)</p> | Original -31/3/2020 | IT Strategy Manager |
| Asset Management | <p>To improve the system in place, extra columns could be added to the asset spreadsheet to record the date an item is acquired and disposed (whether due to loss, disposal, breakage and so on). Items which are no longer 'current' could then be moved to a new tab on the spreadsheet. If disposals are subject to approval (due to their value) then these details could also be included. (Medium)</p> | Original - 31/3/2020 | Facilities and Property Officer |
| Asset Management | <p>All SDNPA owned tablets should be included on the main asset spreadsheet and added to the insurance policy. (Medium)</p> | Original - 31/3/2020 | IT Strategy Manager |