

Agenda Item 16
Report PR21/22-13

Report to	Policy & Resources Committee
Date	30 September 2021
By	Chief 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 (2021/22).**
- 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 2021/22, 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 29th April 2021 provides a key mechanism for providing assurance that the Authority's internal control, risk management and governance arrangements are effective.
- 2.3 In order to support the Authority in providing a response to the Covid-19 pandemic, to ensure Internal Audit resources are focused appropriately, the committee proposed and agreed to:

“Delegate authority to the Chief Finance Officer in consultation with the Chair of the Policy and Resources Committee to amend the Annual Audit Plan 2021/22 as he consider appropriate to support the Authority through the Covid -19 pandemic recovery phase”
- 2.4 Consultations on the Internal Audit Plan continue with the Chief Finance Officer and the Chief Executive, however, no deviations from the approved Internal Audit Plan have been considered necessary.

3. Issues for consideration

Progress against Audit Plan for 2021/22

- 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	Reasonable
New ICT Contract Arrangements	Final	Partial

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**.

EU grant certification work

3.3 Whilst there have been no changes made to the 2021/22 Internal Audit Plan, we have additionally been commissioned by SDNPA to undertake EU grant certification work.

3.4 Claim 7 of the Channel Payment for Ecosystem Services ERDF grant for 12,172 Euros, has been certified. This project estimated to cost €70,000 Euros aims to improve the water quality across the SDNPA area. Most of the grant claim was for staff costs and external expertise and services. This project runs for 4 years from July 2017 the last claim was expected to be made in April 2021 however this has since been extended to July 2022.

Action Tracking

3.5 **Appendix 3** provides a list of those (High & Medium) agreed management actions from previous audit reports.

3.6 One action has been implemented in the current reporting period.

3.7 There are two overdue actions requiring attention although these are partly complete. We have agreed to extend the implementation date for these actions as response to these have been disrupted due to the Authority response to the COVID 19 pandemic. We will continue to track progress, provide advice and support and will update this committee with progress.

3.8 There are no other actions yet due for implementation.

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?	Yes – there are no equalities issues arising from this update report. Equalities considerations are also taken into 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	No, but individual audits consider health and safety risks where appropriate.

from the proposal?	
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

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 2021/22
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

1. Introduction

- 1.1. The objective of this audit was to review the arrangements for treasury management, aiming to provide assurance that there is an effective control environment to manage the risks associated with the authority's investments, cash flow and banking.
- 1.2. This review is part of the agreed Internal Audit Plan for 2021/22.
- 1.3. 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 Council has established an appropriate Treasury Management Policy & Investment Strategy.
 - All lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term.
 - Investments are made with approved counterparties within approved limits, are correctly paid, authorised and are repaid by counterparties with the correct amount of interest.
 - Borrowings are made only from approved organisations, are correctly authorised and repaid to counterparties 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 elected Members receive regular and informative training and performance monitoring information.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Treasury Management (2021/22).** 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. *Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

4. Basis of Opinion

- 4.1. Based on the testing undertaken, we have been able to provide an opinion of **Reasonable Assurance** because:
- 4.2. There are Treasury Management and Annual Investment Strategies in place; a brief review confirmed that these comply with good practice guidance and have been approved by Members.
- 4.3. A list of counterparties and their associated investment limits is maintained, with this being subject to review based upon the creditworthiness of the counterparty, which helps minimise financial risk exposure. In addition, there are robust processes in place to ensure that requests from counterparties to change bank details are bona fide.
- 4.4. Investments made on behalf of SDNPA through Brighton and Hove City Council provide value for money when compared to the open market, whilst still offering liquidity. Current investments with Brighton and Hove provide SDNPA with an average interest rate of approximately 34 basis points (bps), whilst other approved counterparties are currently offering between 5 and 25bps. The higher interest rates received from Brighton and Hove are due to the long-term investments that they hold, from which SDNPA

Executive Summary

receive an average investment rate. These investments provide a higher return than those available through high street banks and are therefore in the best interests of SDNPA.

- 4.5. Reporting mechanisms are in place to ensure that Senior Officers and Members are able to assess treasury management performance information in a timely manner.
- 4.6. There is a process in place to ensure that investments and interest payments are received in full and on the due date, to reduce the risk of financial loss.
- 4.7. The following areas have, however, been identified as benefiting from improvement to strengthen the control environment:
- 4.8. As mentioned in paragraph 4.4. investments in BHCC yield a high return, however, this process does create a perceived conflict of interest within the investment process. There are measures in place to mitigate against this conflict materialising, including the appointment of a statutory Section 151 Officer overseeing the investments, investments being made by professional individuals working within a centre of expertise, meaning that not all officers involved are employed by BHCC.
- 4.9. Whilst there is fidelity insurance in place to protect BHCC against fraud, theft or dishonesty from officers, it was not clear if this cover provided sufficient coverage when undertaking activities on behalf of SDNPA.

5. Action Summary

- 5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	0	
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	1	1
Low	This represents good practice, implementation is not fundamental to internal control.	1	2
Total number of agreed actions		2	

- 5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.
- 5.3. As part of our quarterly progress reports to Audit Committee we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6. Acknowledgement

- 6.1. We would like to thank all staff that provided assistance during the course of this audit.

Executive Summary

New ICT Contract Arrangements

1. Introduction

- 1.1. Contract management is key to ensure an organisation can continuously work with its supplier to provide an effective, efficient, and suitable product/service.
- 1.2. The South Downs National Park Authority (SDNPA), like most modern organisations relies heavily on the use of ICT systems to carry out its duties, any issues with the delivery of the ICT contract can have potentially serious impacts on service provision and data security.
- 1.3. SDNPA outsources the provision of most IT functions to two main providers; Sota Solutions for most back office IT functions such as backups, patching, cyber support, system implementation support etc, and Amicus for on-site 'help desk' support who interact with Sota Solutions to complete this service.
- 1.4. These contracts provide key functions to keep the SDNPA IT network running and provide support for 150 users plus.
- 1.5. This review is part of the agreed Internal Audit Plan for 2021/22.
- 1.6. 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. This audit reviewed the arrangements of the ICT contract to ensure all appropriate strategic ICT risks have been identified and sought to provide assurance that the controls and mitigating activity is appropriate and operating as expected.
- 2.2. The audit only considered the arrangements to manage the contract and did not consider the procurement of the contract.

3. Audit Opinion

- 3.1. **Partial Assurance is provided in respect of New ICT Contract Arrangements (2021/22).** This opinion means that 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.
Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

- 4.1. We have been able to provide Partial Assurance over the controls operating over the ICT Contract Arrangements at SDNPA because:
- 4.2. There is a signed contract in place which has been overseen by West Sussex County Council legal services for the provision of the main ICT support and infrastructure provided by Sota Solutions. Whilst the contract for desk side support services provided by Amicus ITS has not yet been signed, there are arrangements in place for this to be signed as soon as possible, as this has been delayed due to the pandemic.
- 4.3. The contracts are overseen and managed by the ICT Strategy manager at SDNPA, who has demonstrated an in-depth knowledge of the expected service provision.
- 4.4. Patch management is carried out quarterly for both critical and non-critical patches at SDNPA by Sota Solutions, this is not considered sufficient to reduce the risks of vulnerabilities being exploited. Further, we have seen evidence of 1 critical patch being applied immediately as a chargeable service. SDNPA receive no assurance from Sota over the details of the quarterly patches that were needed, where these patches were applied and how successful the patching have been across the entire estate. Therefore, SDNPA cannot currently be aware of where their vulnerabilities lie.

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- 4.5. A formal review process of the performance of the main ICT contract supplier is undertaken in the form of minuted monthly and quarterly review meetings these are undertaken with an Account Manager and the Managing Director at Sota Solutions, with major projects discussed and actions tracked to ensure issues are monitored, making escalation of issues easy. Alongside this, the desk side support service contract performance is also monitored in monthly meetings with Amicus ITS against KPI's in the contract and a formal report produced.
- 4.6. The ICT Strategy Manager has thorough knowledge of the requirements and options available to support the resumption of business as usual should there be a complete failure of the main supplier to deliver the service. However, there is a lack of formal contingencies or plan in place should this failure occur and could mean senior leadership are unaware of where to go and what to do should the ICT Strategy Manager be unavailable.
- 4.7. ICT service delivery is supplied by Sota Solutions and Amicus ITS based on the contracted requirements and training is therefore completed by Sota and Amicus with their staff to support this delivery. All staff at SDNPA are required to undertake cybercrime and cyber security training, the completion of this is monitored through the ELMS training system and a new course has also been subscribed to around Data security provided by learning pool which SDNPA can amend to suit their needs, this will be mandatory and have a test at the end to verify knowledge.
- 4.8. Whilst SDNPA encrypts emails sent within its network and quarantines/filters incoming emails, it does not have any encryption software for emails sent outside of the authority containing personal/sensitive data.
- 4.9. The ICT contract provider Sota Solutions are ISO27001 (information security standard) verified, carry out annual penetration testing and have a cyber resilience plan in place. They are also a member of several WARP's (Warning, Advisory and Reporting Point) for cyber security risks and issues and hold cyber essentials certification which covers the activities carried out on behalf of SDNPA.
- 4.10. SDNPA uses a VPN to support remote security and there is currently an MFA (multi factor authentication) project underway, despite this there are no longer any geographical access restrictions in place with the new contract provider allowing access to systems from anywhere in the world.
- 4.11. Sota solutions provide disaster recovery backups across multiple sites and these are subject to annual testing by the ICT Strategy Manager at SDNPA, however the ICT Strategy Manager is unaware how regularly this is tested outside of this and the annual process and this testing process is not formally documented by SDNPA.
- 4.12. There is a clear management process for software licences with responsibilities assigned, most of the software licences are managed by the ICT Strategy Manager and these are allocated through permission groups that users are assigned to by desk side support, whilst the Microsoft Office licences are managed by Sota Solutions as part of the contract.
- 4.13. SDNPA have a corporate risk register which is monitored by SLT and contains any risks applicable to ICT, these risks are reviewed by the ICT Strategy Manager and Head of Business Services prior to being considered by SLT for addition to the register.

5. Action Summary

- 5.1. The table below summarises the actions that have been agreed together with the risk:

Executive Summary

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	1	1
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	5	2, 3, 4, 5 & 6
Low	This represents good practice, implementation is not fundamental to internal control.	0	
Total number of agreed actions		6	

- 5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.
- 5.3. As part of our quarterly progress reports to Audit Committee we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.
- 6. Acknowledgement**
- 6.1. We would like to thank all staff that provided assistance during the course of this audit.

List of agreed actions that have not yet been implemented.

(For actions graded as High or Medium priority).

Actions implemented (since the previous report)

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
Asset Management	<p>Where an annual check is undertaken then evidence should be retained and accessible. For example a copy of the spreadsheet could be used and a tab added to include what was checked, discrepancies in the register (if any), when the check was undertaken and by whom. This could then be retained in the online folder (with restricted access where the asset spreadsheet is held. This the record may be useful in the event of an insurance claim.</p> <p>With regards to ICT equipment, an annual report should be produced identifying which assets have not been seen within the last 12 months and verifying that they should still be on the register.</p> <p>Ideally annual checks should not be undertaken by the officer that maintains the asset spreadsheet. (Medium)</p>	<p>Original - 31/3/2020</p> <p>Extended – 1/9/2021</p>	<p>Facilities & Property Officer</p> <p>Additional advice offered and action considered implemented.</p>

Actions overdue for implementation

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
Accounts Payable/Creditors	<p>SDNPA do have employee leaver procedures and a notification process is in place. A quarterly existence check will be implemented to enable SDNPA to check staff names and approval levels against existing staff establishment. (Medium)</p>	<p>Original - 31/3/2021</p> <p>Extended - 1/12/2021</p>	<p>Finance and Procurement Manager</p> <p>The appropriate person to carry out the existence check has been identified and they will request quarterly reports from BHCC in order to facilitate this control.</p>
Procurement and Contract Management	<p>Procurement risks are currently only formally assessed on contracts over £100,000. A formal risk management process will be built into general tendering and contract managing processes. (Medium)</p>	<p>Original - 30/6/2021</p> <p>Extended - 1/10/2021</p>	<p>Finance and Procurement Manager</p> <p>Control improvement plans have been identified, including the development of a matrix to support risk management in</p>

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
			procurement. This will need to be reviewed and approved by the National Park Authority in line with the constitution and an extension to the due date has been requested to support this.

Actions not yet due

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
New ICT Contract Arrangements	Contingency plan for service failure Document to be developed detailing the steps to be taken should there be a complete failure by the current provider to deliver the service. (Medium)	30/9/2021	IT Strategy Manager
New ICT Contract Arrangements	Cloud software guidance IT User Policy to be amended to include guidance explaining how access to free cloud-based software should be approved and identifying the risks involved with such solutions. (Medium)	30/9/2021	IT Strategy Manager
New ICT Contract Arrangements	External email encryption The options around giving staff the ability, where required, to send encrypted emails outside of the SDNPA network will be considered and reviewed with SDNPA's Data Protection Officer. (Medium)	30/9/2021	IT Strategy Manager
New ICT Contract Arrangements	Geographical access restrictions Explore whether adding measures to restrict access to SDNPA's network by geographical location can be put in place to mitigate the chance of fraudulent access or whether the risk should be added to the risk register. (Medium)	30/9/2021	IT Strategy Manager
New ICT Contract Arrangements	Disaster recovery testing To supplement the information already in hand on Sota's standard backup and recovery process, the specific backup and recovery process in place for SDNPA's data and systems will be reviewed and documented with Sota. (Medium)	30/9/2021	IT Strategy Manager

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
New ICT Contract Arrangements	Discussions to be held with Sota Solutions to fully understand the vulnerabilities/risks around the current patch management arrangements. The outcome of the review and any options available to further mitigate the risks will then be reported to SMT so that an informed decision can be made about any proposed changes. (High)	30/9/2021	IT Strategy Manager
Treasury Management	<p>Investments with Brighton and Hove City Council In order to help mitigate against the perception of a conflict of interest, the 2022/23 Annual Investment Strategy will include some parameters for investing with Brighton & Hove City Council, including a summary of the triggers and circumstances which would result in a review by the S151 officer as to the appropriateness of the proportion of investments held with BHCC compared to externally.</p> <p>Similarly, it has been agreed with the External Auditor, Grant Thornton, that they will undertake an additional VFM review in respect of Treasury Management, as part of the 2020/21 audit, to provide independent assurance to SDNPA regarding TM performance.</p>	31/3/2022	Technical Accountant (BHCC)