

Agenda Item 17
Report PR21/22-28

Report to	Policy & Resources Committee
Date	25 November 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 has been one report issued since the last progress report to this committee.

Audit Title	Status	Assurance Level ¹
Capital Accounting	Final	Reasonable

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

3.2 A copy of the Executive Summary for the finalised audit is attached at **Appendix 2**.

EU grant certification work

3.3 As previously reported we have additionally been commissioned by SDNPA to undertake EU grant certification work.

3.4 No further grant claim work has been completed in this period.

Action Tracking

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

3.6 Six actions have been implemented in the current reporting period.

3.7 There are four actions not yet implemented. We have agreed to extend the implementation date for these actions to allow an effective response to be made to manage the risks identified. 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 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	No, but individual audits consider these principles where relevant,

implications based on the 5 principles set out in the SDNPA Sustainability Strategy?	particularly around the Principle 4, “Promoting good governance”
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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 agreed 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.

Agenda Item 17 Report PR21/22-28 Appendix I
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
Capital Accounting

1. Introduction

- 1.1. The SDNPA operates a Medium-Term Financial Plan (MTFP) which outlines the fiscal strategy and expectations for a 5-year period. The Capital Programme represents anticipated capital financing requirements and expenditure over this MTFP period.
- 1.2. The Capital Programme requires specific approval by the Authority; in conjunction with the annual revenue budget, and it outlines the phasing of expenditure and the sources of funding.
- 1.3. The Authority's capital programme for 2020/21 to 2024/25 forecast a total of £2.390m capital investment, with £1.955m planned for 2020/21.
- 1.4. This review is part of the agreed Internal Audit Plan for 2021/22.
- 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:
 - The Capital programme, strategy and plan have been formally documented, approved by Members and meets the priorities of the Council.
 - The Capital programme monitoring arrangements are effective and timely in delivering stated outcomes.
 - All funding due from the 3rd parties and capital grant providers is drawn down in a timely manner and the conditions of the grant provider are met.
 - Capital receipts are received in a timely manner.
 - The council critically assess its capital borrowing requirements.
 - Capital activity is accurately reflected in the financial accounts.
- 2.2. This review is to ensure that the Authority has effective control over the management of its capital programme including compliance with accounting regulations and other internal controls.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Capital Accounting (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. The audit opinion is Reasonable as there are well established accounting practices, processes, and procedures in place to support the Authorities Capital Program.
- 4.2. A regular reporting framework exists which requires active participation by the Authorities Project Budget Managers and the Finance staff at Brighton and Hove City Council (BHCC).
- 4.3. Overall, the system is efficient and enables both entities to communicate effectively.
- 4.4. However, Members are not provided with an accurate report on the actual budget position throughout the year. For both 2020/21 and 2021/22 (year to date) we found there has been, and is likely to be, significant underspend within the Capital Programme.

Executive Summary

Members were provided with a report at each Policy and Resources Committee confirming the outturn of 'zero forecast variance'.

- 4.5. At year end a zero forecast variance was reported. We found that the only adjustment reported to members was a budget variation. This was within an appendix to the 2020/21 Budget Monitoring Report, Provisional Outturn Position, reported in July 2021 (after year-end). At which time the budget amount was reduced to reflect the actual expenditure.
- 4.6. Controls ensure that any overspend within the capital programme is accurately reported. However, underspends are not subject to the same controls and are not reported until after year end. This reporting practice does not reflect an accurate status of the capital programme and by association does not support delivery of the Authorities strategic objectives.
- 4.7. The Authority has publicly issued a Strategic Plan, and this details what the Authority aims to deliver in its Annual Plan. The correlation between underspent budgets, and delays to delivery of the strategic objectives, as per these plans, is therefore not explicit and could fail to be noted.

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.	2	1, 2
Low	This represents good practice; implementation is not fundamental to internal control.	0	
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.

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
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 - implemented	IT Strategy Manager The SDNPA IT Disaster Recovery Plan has been updated to ensure it covers the scenario of a complete failure of the provider to deliver the service. New section titled “5 Succession Plan” added.
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 - implemented	IT Strategy Manager The IT User Policy has been updated (see the new section “13 Cloud Based Software” on page 13.) and the Communications team has uploaded this to the intranet and a note was put in the weekly “Update” to staff to alert them of the update.
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)	31/10/2021 - implemented	IT Strategy Manager Should it prove necessary for anyone at SDNPA to send encrypted emails then two products have been identified and reviewed and communicated across the Authority.
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)	31/10/2022 - implemented	IT Strategy Manager A document that serves to supplement the information already in hand on Sota’s standard backup and recovery process.
Capital Accounting 2021/22	Forecast and Expenditure - Monitoring and Reporting. 2020/21 was an unusual year with the length of Covid-related restrictions unknown and therefore made forecasting very challenging. However, we will ensure a more ‘robust’ forecasting conversation with budget holders, particularly later in the year if programmes appear to be behind schedule, and will reflect this in earlier reprofiling requests/approvals to committee if necessary.	01/11/2021 - Implemented	Chief Finance Officer Additional capital budget holder meetings have now been scheduled, particularly in relation to the major Seven Sisters project.

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
Capital Accounting 2021/22	Unreported Slippage on Delivery of Strategic Objectives As above, we will collate additional information if programmes are behind schedule, including the budget holder's plans to mitigate slippage (i.e. catch up on delivery).	01/11/2021 - Implemented	Chief Finance Officer A new report format and information has been developed for the Budget Monitoring Report to Policy & Resources Committee which shows actual capital spend for each scheme compared to the budget and provides explanations for projects that are off target (slippage). See Budget Monitoring Report 2021/22: Month 4 to the 30 September 2021 committee.

Actions overdue for implementation

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
Accounts Payable/Creditors	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)	Original - 31/3/2021 Extended – 7/1/2022	Finance and Procurement Manager 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.
Procurement and Contract Management	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)	Original - 30/6/2021 Extended – 7/1/2022	Finance and Procurement Manager On 30 September, P&R Committee approved a new Procurement Strategy for SDNPA, which included some provisions relating to risk management in contracts. The Finance and Procurement Manager is building this into a framework that will be compatible with the corporate methods of risk management while addressing the specific risks and mitigations relevant to procurement activity. The guidance should be ready by the end of November.
New ICT Contract Arrangements	Patch Management 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	Original - 30/9/2021 Extended - 07/01/2022	IT Strategy Manager Discussion have taken place with the provider to increase the frequency of patching.

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
	further mitigate the risks will then be reported to SMT so that an informed decision can be made about any proposed changes. (High)		
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)	31/10/2021 Extended - 07/01/2022	IT Strategy Manager Pricing has been requested for technology which when enabled allows incoming and outgoing connections to or from sites located in the specified countries to be blocked. Other solutions also being considered.

Actions not yet due

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
Treasury Management	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. 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.	31/3/2022	Technical Accountant (BHCC)