

Report to **Policy & Resources Committee**
Date **19 July 2022**
By **Chief Internal Auditor**
Title of Report **Internal Audit Progress and Implementation**
Decision

Recommendation: The Committee is recommended to:

- 1. Note progress against the Internal Audit Strategy and Annual Plan (2021/22).**
 - 2. Note the implementation of audit actions previously agreed by management.**
 - 3. Approve the recommended amendment to the 2022/23 Internal Audit Plan.**
-

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. For the sake of clarity this report is written after the 2022/23 audit plan has been approved by members of the Committee but is produced so that Members can receive an update on the Seven Sisters – Financial Arrangement audit for completeness.
- 1.2 The committee will not be receiving a progress report against the 2022/23 internal audit plan as no audits have yet been completed in the reporting period.
- 1.3 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.
- 1.4 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 considers 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
Seven Sisters - Financial Arrangements	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, in addition to the planned audit work, we have additionally been commissioned by SDNPA to undertake EU grant certification work.

3.4 No additional claims have been certified in this reporting period.

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, there are no other actions yet due or overdue for implementation.

Amendment to the 2022/23 Internal Audit Plan

3.7 Committee members will note that the 2022/23 Audit Strategy and Annual Plan was approved by them on 17th February 2022.

3.8 In preparation for the 'Awarding of Grants' audit it has become apparent that the grant award process is managed and administered by the South Downs Trust. Discussion with the Chief Executive and the Chief Finance Officer has confirmed that assurance over the process would be a matter for the Trust (i.e. the Trustees) under their Articles of Association and Charity Registration.

3.9 As we do not provide internal audit services to the South Downs Trust, in consultation with the Chief Executive and Chief Finance Officer, we recommend that the audit plan is amended to remove the Awarding of Grants audit and replace it with an ICT Contract Arrangements Follow-Up audit.

3.10 The original ICT Contract Arrangements audit was completed in August 2021, receiving a Partial Assurance Opinion.

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.

Implication	Yes*/No
How does the proposal represent Value for Money?	The Internal Audit Service is provided through a contract with Brighton & Hove City Council which forms part of a wider procurement of financial services.
Which PMP Outcomes/ Corporate plan objectives does this deliver against	All PMP outcomes and Corporate plan objectives are considered as part of the annual audit planning process.
Links to other projects or partner organisations	Audit clients identified as appropriate.
How does this decision contribute to the Authority's climate change objectives	This report doesn't directly contribute to the Authority's climate change objectives.
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 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 reviews and testing of controls are orientated towards these risks plus the operational controls within individual systems and services.

MARK WINTON

Chief Internal Auditor

South Downs National Park Authority

Contact Officer: Mark Winton, Audit Manager (ICT) and SDNPA Chief Internal Auditor

Tel: 07740517282

Email: mark.winton@eastsussex.gov.uk

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

Seven Sisters Financial Arrangements

1. Introduction

- 1.1. SDNPA is making a significant financial investment in Seven Sisters Country Park (SSCP) and is working with the South Downs National Park Trust, to develop the Park as a World Class Visitor Centre. This investment underpins SDNPA's long-term plans to conserve and enhance SSCP and ensure that it continues to be an iconic, healthy, and cherished place for future generations.
- 1.2. The Project includes multiple elements, all of which are expected to yield income; from the actual Visitor Centre itself, commercial retail sales and car parking. Then there will be holiday accommodation, camping facilities and rental opportunities at the Exceat and Foxholes locations.
- 1.3. A consideration for SDNPA is the creation of an independently identifiable Local Authority Trading Company (LATC), which will be expected to operate the SSCP site, and each operation therein, in a cost neutral manner. The expectation is that the LATC will generate a trading surplus and SDNPA will recover its investment from the trading surplus.
- 1.4. This review is part of the agreed Internal Audit Plan for 2021/22.

2. Scope

- 2.1. The overall objective of the audit was to give assurance that arrangements for the Local Authority Trading Company (LATC) are in place, suitably mature and sufficient to manage financial liability on SDNPA with regard to the controls that are in place to meet the following specific objectives:
 - The Authority can evidence that it exercises control over the company, consistent with the control it currently exercises over its own in-house operations.
 - Loans to the Local Authority Trading Company (LATC), asset transfers and rental arrangement are on commercial terms
 - The LATC Board roles and responsibilities are clearly defined and communicated.
 - The Authority ensures that the LATC delivers more than 80% of its activities for the Authority.
 - Financial Monitoring and Reporting are adequate to determine Financial Performance.
 - Trading is monitored, with regular scrutiny of Working Capital and Cash Flow including – Banking and Reconciliation of Income.
 - That there is scrutiny of investment into the Trading Company to ensure that any form of capital injection cannot be construed to be from Private Investors.
 - That Best Practice for purchasing is identified and implemented.
- 2.2. The creation of the Trading Company itself, its Governance, and Cash Management, are currently out of scope.

3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Seven Sisters - Financial Arrangements.** 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. To support this audit, we used the CIPFA document ‘Teckal – the basics explained’ to form a structured test schedule, undertook structured interviews, sought evidence and provided challenge where appropriate. The following summarises our high-level conclusions:
- 4.2. Suitable consideration has been given to the type of trading company (Teckal) selected with legal advice and support provided to the authority.
- 4.3. The expectations and outcomes for the traded company are clearly documented and understood within the Authority. The authority are using CIPFA guidance to inform the reasonable charges for payments between the national park and the traded company. There is a plan to cost all elements of delivery to ensure that there is full cost recovery on optional items and the authority are mindful of costs for other fees.
- 4.4. We have seen no evidence that the Financial Terms agreed between the traded company and SDNPA are on a comparable commercial basis. No comparable arrangements to which a comparison might be able to be made have yet been made. This is something the authority are aware of and will continue to share best practice for.
- 4.5. There are 4 Board Members appointed to the traded company on behalf of the NPA. Their responsibilities are known, documented, and understood. A fifth independent member has been appointed to the board following a recruitment exercise run through a Land Managers Group to attract people with relevant skills, providing further balance and experience. A sixth position will remain vacant for the time being and will be recruited to at a later date.
- 4.6. We found that there is a Shareholder Agreement included in the company's constitution to manage and govern the relationships between the stakeholders, and that it includes decision making and voting rights, which restrict the abilities and authorities of the LATC Board Directors, so that the Authority and its Members are satisfied that the assets of the LATC are adequately protected.
- 4.7. The governance arrangements for the traded company are a crucial consideration for the national park. We found that a suitable structure exists with a South Downs Commercial Board overseeing activities. Arrangements to provide legal and finance advice and support to the company have been formalised.
- 4.8. An Annual Business Plan and a Trading Agreement, referred to as the Operations Agreement have also been produced and presented for formal review and approval by the National Park Authority Board.
- 4.9. At the time of the audit VAT registration for the company was underway, supported by BHCC finance.
- 4.10. In conclusion, we have found that the controls over the financial arrangements for the Seven Sisters Country Park traded company are in place and developing as expected.

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.	0	
Low	This represents good practice, implementation is not fundamental to internal control.	0	
Total number of agreed actions		0	

5.2. As there are no findings arising from the audit the detailed findings section has been removed from the report.

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
Treasury Management	<p>Investments with Brighton and Hove City Council</p> <p>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. (Medium)</p>	31/3/2022	<p>The February Policy and Resources Committee minutes noted:</p> <p>It was reassured that the investment with B&HCC was guided by the best interest rates and the returns available to SDNPA and although the parameters for investment were not within the Treasury Management report presented to the Committee (as recommended as an action within the Internal Audit report) it was reassured that investment was guided by the best interest rates available.</p>

Actions overdue for implementation

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
	None at this time		

Actions not yet due

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
	None at this time		