

Report to **Policy & Resources Committee**  
Date **22 September 2022**  
By **Chief Internal Auditor**  
Title of Report **Internal Audit Progress and Implementation**  
**Note**

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**Recommendation: The Committee is recommended to:**

**1) Note progress against the Internal Audit Strategy and Annual Plan (2022/23)**

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**1. Introduction**

- 1.1 This report details progress against the Internal Audit Strategy and Annual Plan 2022/23, 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 17<sup>th</sup> February 2022 provides a key mechanism for providing assurance that the Authority's internal control, risk management and governance arrangements are effective.
- 2.3 Consultations on the Internal Audit Plan continue with the Chief Finance Officer and the Chief Executive, there has been one deviation from the approved Internal Audit Plan approved by Members at the last Policy and Resources committee. With the ICT Contract Arrangements replacing the Awarding of Grants audit.

**3. Issues for consideration**

Progress against Audit Plan for 2022/23

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

<b>Audit Title</b>	<b>Status</b>	<b>Assurance Level <sup>1</sup></b>
Community Infrastructure Levy	Final	Substantial
Main Accounting & Budget Management	Final	Reasonable

<sup>1</sup> Assurance levels are defined in **Appendix 1**.

3.2 A copy of the Executive Summary for the finalised audits are 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.

**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 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.

<b>Implication</b>	<b>Yes*/No</b>
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.
<p>Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy?</p> <ol style="list-style-type: none"> <li>1. Living within environmental limits</li> <li>2. Ensuring a strong healthy and just society</li> <li>3. Achieving a sustainable economy</li> <li>4. Promoting good governance</li> <li>5. Using sound science responsibly</li> </ol>	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**

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Appendices	<ol style="list-style-type: none"> <li>1. Assurance Opinions – Definitions</li> <li>2. Executive Summary extract reports</li> <li>3. List of actions that have not yet been implemented.</li> </ol>
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 2022/23. Individual audit reports.



### Assurance Level Opinions - Definitions

Categories of Assurance	Assessment
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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

### Community Infrastructure Levy 2022/23

#### 1. Introduction

- 1.1. The Community Infrastructure Levy (CIL) Regulations, introduced in April 2010, allow local authorities to raise funds from developers who are undertaking new building projects. Whilst gaining planning permission generally increases the value of land, by imposing a CIL, developer contributions may reduce any adverse impacts that a new development has on the existing infrastructure. It can also support local facilities, be used towards new/improved infrastructure as well as helping to deliver National Park priorities, such as green infrastructure, sustainable transport, and education.
- 1.2. For 2022/23, the CIL income budget is £1.7m.
- 1.3. This audit review examined the control mechanisms to ensure that the planning process incorporating the CIL is operating as intended, CIL surcharges and other penalties are appropriately applied and utilised in accordance with the relevant terms and regulations.
- 1.4. This review is part of the agreed Internal Audit Plan for 2022/23.
- 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 planning process incorporating the CIL is operating as intended
  - The correct CIL apportionment is passed to town parishes (25% where there is a Neighbourhood Plan, or 15% where there is no Neighbourhood Plan).
  - CIL surcharges and other penalties are appropriately applied
- 2.2. It is acknowledged that this service was significantly impacted by the COVID 19 pandemic. Some developments were delayed leading to issues over the ability to make payment for the CIL liability. Government legislation provided for additional instalments and SDNPA worked proactively with developers over these payments. The impact of COVID 19 has been considered during our review and when forming the audit opinion

#### 3. Audit Opinion

**Substantial Assurance is provided in respect of** Community Infrastructure Levy. 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 Our review of the processes in place, confirmed that the CIL procedures operating, were in line with regulations. Interfaces between the Planning systems and EXACOM (CIL IT system) were also in place and operating as expected.
- 4.2 The CIL charging schedule as approved by the Planning Inspectorate and the annual indexing rates as used by Ministry of Housing Communities and Local Government (MHCLG), for the purposes of keeping the levy rate responsive to market conditions were agreed by SDNPA. Our testing showed that these rates were being applied.
- 4.3 A key control is to ensure that the Gross Internal Area (GIA) measurement is correct, as this is the basis for the CIL calculation. This m2 is declared by the applicant via the CIL forms and is subject to scrutiny by the CIL Officer via the GIS measuring system (part of the Public Access system provided by Idox). However, this check is not always evidenced within EXACOM as being undertaken and agreed. An incorrect/understated GIA may mean loss of income to SDNPA.
- 4.4 Regulation 59A 'Duty to Pass CIL to Local Councils' states that Parish / Town Councils will be given a 'neighbourhood portion' of the CIL collected within their parish. Those with a Neighbourhood Plan will receive 25% of the CIL funds collected from new development within their area whilst those without a Neighbourhood Plan will receive 15%. Our testing confirmed this was the case.
- 4.5 When needed, surcharges were found to have been applied to the CIL liability notices. We noted that during the pandemic, for a number of sites, development did not proceed as originally anticipated, and SDNPA worked in collaboration with them to allow greater flexibility over both the number and timing of instalment arrangements.
- 4.6 Through discussions with staff, the CIL handbook was found to be a comprehensive document, subject to regular review and updates. However, the changes made were not recorded via a process of version control which may lead to inconsistency of approach.

## 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.

## Executive Summary

### Main Accounting and Budget Management 2022/23

#### I. Introduction

- 1.1. The objective of this audit was to review the control mechanisms for ensuring the main accounting system is maintained in line with statutory requirements. The audit also reviewed the arrangements to ensure that revenue budgets can be, and are, effectively monitored.
- 1.2. This review is part of the agreed Internal Audit Plan for 2022/23.

- 1.3. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section 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:
  - There are effective processes for the co-ordination and approval of budgets
  - Timely and “fit for purpose” budget-monitoring reports are provided to senior management and elected members
  - Controls are in place to ensure that all transactions from feeder systems are recorded accurately and completely within the Main Accounting System CIVICA
  - There is effective control over accounting journals, virements, and suspense accounts.
- 2.2. The Trading Company created in 2021 for the management of the Seven Sisters Country Park is outside the scope of this audit.

## 3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Main Accounting and Budget Management (2022/23).** 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. We are able to provide a Reasonable Assurance opinion, for the following reasons:
- 4.2. There is a robust and effective procedure for budget planning and approval. There is evidence of a co-ordinated and well-established annual process including a shared timetable for budget planning; a schedule of meetings to review and revise, submission for approval, and a calendar for these to be collated. The combined processes ensure a resilient and efficient system for producing budgets for Budget Managers, and ultimately then for Members approval.
- 4.3. The Financial Information System (FIS) is managed and maintained by Brighton & Hove City Council (BHCC) who are responsible for ensuring that information entered is accurate.
- 4.4. The Authority Budget Managers are identified within the FIS, to support efficient approval and authorisation of transactions. An effective review process picks up changes to Budget Managers from payroll and ensures that this information is maintained accurately. The process to amend budget manager information requires written email authorisation, and document retention. There has been no change since the last audit and the risk of inappropriate authorisation of transactions remains well managed.
- 4.5. The responsibilities and the role for Authority Budget Managers are clearly defined within the SDNPA Standing Orders and Financial Instructions.



- 4.6. The use of common templates and shared spreadsheets for both Budget Planning and Monitoring, in combination with download and upload of monitoring information, mitigates the risk of data transcription errors. Data integrity is embedded within procedures, with processes and controls in place to reconcile the feeder systems.
- 4.7. A high-level review of the complex reconciliation for planning income demonstrated the effective joint effort of Council and Authority in maintaining accurate financial information.
- 4.8. The regular cycle of budget monitoring is managed by the Finance Team who proactively collaborate with budget managers to identify any transactions unposted, locate erroneous postings within the FIS, and ensure the accuracy of the transactional reporting within their cost centres. The authorisation, approval and appropriate record retention were seen for both budget virements and journals.
- 4.9. There is an internal process for the review of financial information and reports that are to be disseminated. This ensures the consistency of data, and presentation of information, provided to the Authority. Reports are passed by the Finance Officers and the Accountant, to the Chief Finance Officer for scrutiny and approval. From Authority agendas and minutes, it is evident that reports were issued.
- 4.10. In accordance with the Authority's reporting requirements and Financial Regulations there is an extended period in which no budget report is provided to the Authority, with the Period 9/Quarter 3 report in January being the last provided in the financial year. A report for management at Period 12, while subject to the completion of the full range of closure of accounts processes and entries, could help to ensure that management maintain sight of underlying expenditure and income trends in the interim, to aid ongoing budget management until the provisional outturn position is available.
- 4.11. It was noted that there is a presentational difference between the published Approved Budget and the financial resources quoted in the Corporate Plan for 2022/23. On review, the departmental totals provided in both the budget approval paper and subsequent budget monitoring reports are provided net to demonstrate the Authority's 'budget requirement', i.e. its funding requirement from government, meaning that only the DEFRA Grant sum is shown as income for the Authority in the publicly reported budget. While it is noted that management and members see detailed information on all expenditure, income and reserves through annual budget workshops, this presentation of the Authority's budget requirement could be improved to increase the level of transparency.
- 4.12. For consecutive years, the Authority has underspent and has transferred revenue budget to cash balances at year-end. The latest transfer for 2021/22 was for £0.418m. It is understood that this, in part, is due to proactive and prudential management of the budget in lieu of the prospect of 'flat cash' grant settlements in future, as set out in the Authority's Medium Term Financial assumptions and projections. Therefore, an element of underspending is accepted as planned to manage change and transition. However, the movements between Q3 and outturn can be significant which, together with annual carry forwards exceeding £1m, may indicate that forecasts and projections by budget managers are respectively over-cautious and/or over-optimistic and that greater oversight and improved profiling of budgets could improve financial management and provide for more optimal use of resources.

## **5. Action Summary**

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

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

- 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 and medium 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.



**List of agreed actions that have not yet been implemented.**

(For actions graded as High or Medium priority).

**Actions implemented (since the previous report)**

<b>Audit</b>	<b>Agreed Actions (with priority)</b>	<b>Due</b>	<b>Officer Responsible / Update</b>
Community Infrastructure Levy 2022/23	A file note to evidence the Gross Internal Area (GIA) check will be made in EXACOM. (Medium)	29/07/2022	Nikki Allen has provided an update and evidence to support that the action has been implemented. Evidence was also provided to show that the low risk action arising from the same audit has also been implemented.

**Actions overdue for implementation**

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

**Actions not yet due**

<b>Audit</b>	<b>Agreed Actions (with priority)</b>	<b>Due</b>	<b>Officer Responsible / Update</b>
Main Accounting and Budget Management (2022/23)	Although detailed information is provided to members via annual Budget Workshops, we will include more detailed analysis in both the annual Budget Report and Budget Monitoring reports. This will include a 'Subjective Analysis' of both expenditure and income budgets. (Medium)	2023/24 Budget and from Q2 Budget Monitoring (1 December 2022)	Principal Accountant (BHCC)
Main Accounting and Budget Management	Reserves and reserve movements are reported through every Budget Monitoring report to management and members. We will explore with management the development of an interim PI2	Q4 2022/23 (1 April 2023)	Principal Accountant (BHCC)

Audit	Agreed Actions (with priority)	Due	Officer Responsible / Update
(2022/23)	report (i.e. 'pre-outturn' report) to ensure that ongoing focus on expenditure and income trends is maintained while the closure of accounts process is underway. This will also inform management in identifying prepayments and accruals required. The report will be for management consideration only as a P12 interim report can only present an incomplete position that is not appropriate for member or public consumption. (Medium)		
Main Accounting and Budget Management (2022/23)	<p>We will undertake a risk-based review of budgets with management to ensure a higher level of engagement and training for budget managers with more complex budgets.</p> <p>We will also review with budget holders and management the budget profiling of income and expenditure budgets to ensure that variances are more accurate, enabling more timely review and/or action to address underlying reasons and/or recovery of the position.</p> <p>Budget Monitoring reports will be kept under constant review, to address the Authorities emerging needs, including actions agreed with Internal Audit and by reviewing best practice. We will work with SMT to consider further potential improvements. (Medium)</p>	Q2 reporting (1 Dec 2022)	Principal Accountant (BHCC)