

North York Moors National Park Authority Finance, Risk, Audit and Standards Committee

4 September 2017

Internal Audit Annual Report 2016/17, Audit Plan 2017/18 and Internal Audit Charter

1. Purpose of the Report

- 1.1 To inform Members of the Internal Audit work undertaken and the audit opinion in 2016/17.
- 1.2 To seek approval from Members of the draft Internal Audit Plan for 2017/18.
- 1.3 To seek approval from Members of the Internal Audit Charter.

2. Purpose and Background

2.1 The purpose of the report is to:

- Provide a statement of assurance regarding the adequacy and effectiveness of the internal control system from Veritau Ltd (Internal Audit Services) The Statement of Assurance will support the Annual Governance Statement (AGS) which forms part of the Authority's Financial Statements.
- Provide an Audit Plan for the assurance work which will be undertaken by Veritau Ltd in 2017/18.
- Provide an Internal Audit Charter which sets out the arrangements and standards for internal audit in order to comply with Public Sector Internal Audit Standards.

3. Annual Audit Report 2016/17

- 3.1 The Annual report (**Appendix 1**) includes a summary of the findings of the audit including Management responses where appropriate. These findings are used to formulate the overall opinion.
- 3.2 Veritau carried out its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
- 3.3 There is no direct linkage to any of the Authority's Priorities as internal audit is a support service, which provides internal control and activity assurance to Directors on the operation of their services, and specifically to the Authority's S151 Officer on financial systems.
- 3.4 Officers are working on the management actions agreed in each report (see **Appendix 1**).
- 3.5 The overall opinion of the Head of Internal Audit on the controls operated at the NYMNP is that they provide **Substantial Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

4. **Audit Plan 2017/18**

- 4.1 The Audit Plan is a working document which evolves and may change over the course of the year as it is aligned to the issues raised in the Authority's Strategic Risk Register which is also a document which is regularly reviewed. The preparation of the Internal Audit Plan on the basis of identified risks is recognised as best practice and enables members of FRASC and the management team to satisfy themselves that internal audit activity is focused on the main risks to the Authority.
- 4.2 The content of the audit plan has been subject to consultation with the Chief Executive, Chief Financial Officer and Directors and is submitted for formal approval by the committee who are also responsible for monitoring progress against the plan. Changes to the plan are agreed through the Authority's client management arrangements and are notified to the committee. Proposed audit work is also discussed with the Authority's external auditors to ensure there is no duplication of effort.
- 4.3 The draft Annual Internal Audit Plan for 2017/18 is attached as **Appendix 2** to this report.
- 4.4 It is anticipated that the audit work will commence in Autumn 2017 and a summary report will be presented to this Committee once the work has been completed.
- 4.5 Veritau will also liaise with the External Auditors, KPMG, in order to assist in the conclusions given in the 'audit opinion'.

5. **Internal Audit Charter**

- 5.1 There is a statutory duty on the National Park Authority to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account Public Sector Internal Auditing Standards (PSIAS) or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 5.2 The Internal Audit Charter at **Appendix 3** sets out the arrangements and standards for internal audit for the National Park Authority in order to comply with PSIAS.
- 5.3 The charter aims to ensure effective Internal Audit by clearly articulating the scope of and approach to internal audit work (which encompasses the National Park Authority's entire control environment including its systems of governance, risk management, and control); responsibilities and objectives; organisational independence; and accountability, reporting lines and relationships etc.

6. **Financial and Staffing Implications**

- 6.1 None.

7. **Sustainability and Legal Implications**

- 7.1 There are no sustainability or legal implications arising from this report.

8. Recommendation

8.1 That Members note the content of this report and approve the plan at **Appendix 2**.

8.2 That Members approve the Internal Audit Charter at **Appendix 3**.

Contact Officer:

Irene Brannon

Director of Corporate Services

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Background documents to this report

None

File Ref



North York Moors National Park Authority

Internal Audit Annual Report

2016-17

Audit Manager: Ian Morton
Head of Internal Audit: Max Thomas

Circulation List: Members of the Finance, Risk, Audit and Standards Committee
Management Team (including the S151 Officer)

Date: 4 September 2017

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Chief Audit Executive (Head of Internal Audit) must provide an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. The opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 2 During the year to 31 March 2017, the Authority's internal audit service was provided by Veritau Limited.

Internal Audit Work Carried Out 2016/17

- 3 During 2016/17, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:

Financial Systems – providing assurance on key areas of financial risk. This helps support the work of the external auditors and provides assurance to the Authority that risks of loss are minimised.

Information Systems – providing assurance on information management and data quality.

Operational Systems - providing assurance on operational systems and processes which support service delivery.

Governance / Risk Management - providing assurance on governance arrangements and systems to manage risks to the achievement of corporate objectives.

- 4 No special investigations were carried out during the year
- 5 **Appendix A** summarises internal audit work planned and completed during the year and the opinion given for each report issued. **Appendix B** provides details of the key findings arising from our internal audit work and **appendix C** provides an explanation of our assurance levels and priorities for management action.

Professional Standards

- 6 Veritau maintains a quality assurance and improvement programme (QAIP) to ensure that internal audit work is conducted to the required professional standards. Quality assurance arrangements include ongoing operational procedures, an annual internal self assessment against the PSIAS, and periodic external assessment. Further details on the QAIP and the outcomes of the quality assurance process are provided in **appendix D**

Audit Opinion and Assurance Statement

- 7 In connection with reporting, the relevant professional standard (PSIAS 2450) states that the Chief Audit Executive (CAE)¹ must provide an annual report to the board² timed to support the annual governance statement. The report should include:
- (a) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (ie the control environment)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (including progress against any actions resulting from external assessment)
 - (d) disclosure of any qualifications to the opinion, together with the reasons for the qualifications
 - (e) details of any impairments or restriction in the scope of work)
 - (f) a comparison of the work actually undertaken with the work that was planned and a summary of the performance of internal audit against its performance targets
 - (g) details of any issues which the Head of Internal Audit judges to be of particular relevance to the preparation of the Annual Governance Statement.
- 8 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Authority is that it provides **Substantial Assurance**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion. There are also no significant control weaknesses which, in the opinion of the Head of Internal Audit need to be considered for inclusion in the Annual Governance Statement.

¹ The PSIAS refers to the Chief Audit Executive. For the NYMNPA this is the Head of Internal Audit for Veritau.

² The PSIAS refers to the board. For the NYMNPA this is the Finance, Risk, Audit and Standards Committee

2016/17 audit assignments completed

Audit	Status	Assurance Level
Financial Systems		
Key Financial Systems	Completed	Substantial Assurance
Information Systems		
Freedom of Information	Completed	High Assurance
ICT	Ongoing	
PCI DSS	Draft	
Operational Systems		
Planning	Completed	High Assurance
Health and Safety	Completed	Reasonable Assurance
Governance/Risk Management		
Risk Management	Completed	High Assurance
Other Work		
Client Support and Advice	Completed	Not Applicable

Summary of Key Issues from audits completed

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Key Financial Systems	Substantial Assurance	The audit consisted of a high level review of the main accounting, creditors, debtors and payroll systems.	12/5/2017	<p>Strengths The processes for new starters and leavers and the controls in place within the systems were found to be effective. Monthly payroll reports are authorised appropriately. The budget monitoring process was found to be effective with monthly reports produced that contain sufficient detail to enable managers to monitor financial performance. There were no issues identified with either the invoice payment or purchase card payment systems.</p> <p>Weaknesses Due to the relatively small size of the organisation issues were identified with the bank reconciliation process. Reconciliations are not checked by a</p>	Finance assistant to be trained to undertake debtor's process, and options for review of reconciliation to be investigated.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				different officer, and only one officer was able to run the detailed balances report used to monitor debtor balances.	
Freedom of Information	High Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls within the system ensure that:</p> <ul style="list-style-type: none"> • Responses to requests for information are provided within the timescales set out by the relevant legislation and regulations • Refusals and exemptions are applied and administered correctly, in accordance with the relevant legislation and regulations • Requests for reviews and complaints are 	14/2/2017	<p>Strengths The authority is aware of its responsibility to the public in regards to FoI requests and has implemented a procedure to ensure that requests are dealt with in accordance with the relevant legislation. All complaints received by the authority in the period covered by the audit followed the complaints procedure.</p> <p>Weaknesses No significant control weaknesses identified.</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		dealt with according to relevant procedures and regulation.			
Planning	High Assurance	<p>The purpose of this audit was to provide assurance that procedures and controls within the system ensure that:</p> <ul style="list-style-type: none"> • Sufficient documentary evidence is retained to support planning decisions • The process for handling planning applications is effective • The correct fees for planning applications are charged • Timescales for processing planning applications are met in line with specified performance indicators 	11/1/2017	<p>Strengths For each case tested sufficient evidence was held on file to support the decision and document the process followed. The testing also showed that the correct fees are charged in line with the national fees and charges set by government. The Planning Team is currently meeting the majority of their processing time targets in line with the specified performance indicators set by the Authority.</p> <p>Weaknesses There is currently an element of duplication in the planning process as documents are stored as both an electronic and hard paper copy. The process for signing off applications is complex and could possibly</p>	The process will be reviewed as part of a wider benchmarking exercise and cost effectiveness analysis during 2017/18.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				be streamlined to reduce the number of people involved in the process.	
Health and Safety	Reasonable Assurance	<p>The purpose of this audit was to provide assurance that procedures and controls within the system ensure that:</p> <ul style="list-style-type: none"> • The Authority has a comprehensive and up to date Health and Safety policy framework which is approved and regularly reviewed • Employees and the volunteer workforce are informed of any changes. • There is suitable health and safety training for volunteers. • Risk assessments are undertaken and there is a process in place to ensure that volunteers do not 	31/3/2017	<p>Strengths An active Health and Safety management group is in operation. There are strong controls in place ensuring the effective recording, reporting and investigation of any health and safety incidents</p> <p>Weaknesses There is a volunteer management system, however at present information is held in various locations and further training is needed to maximise the use of this system. There is insufficient evidence that volunteers have received and understood policies and that sufficient training has been received. There are multiple versions of risk assessments that are difficult to locate.</p>	<p>All existing volunteers have been contacted and are required to read the Health and Safety Policy, confirming via My Volunteering that they have done so and read/understood their obligations. All volunteer training will be recorded on My Volunteering and compulsory training has an expiry date which will generate a reminder. Duplicate risk assessments to be deleted with the</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>undertake any inappropriate tasks.</p> <ul style="list-style-type: none"> • Health and safety incidents are recorded, reported and investigated where appropriate. 			<p>Intranet site used for all current risk assessments</p>
Risk Management	High Assurance	<p>The purpose of this audit was to provide assurance that:</p> <ul style="list-style-type: none"> • The identification of risks is comprehensive and timely. • Sound arrangements are in place to mitigate identified risks. • Arrangements for monitoring the risk management system are robust 	1/8/2017	<p>Strengths Each risk has been assigned a Risk Owner and Risk Manager. For every risk there is a description of the risk and detail on both the current control measures and future actions that have been identified to mitigate the risks. Each action is assigned an Action Manager to oversee the completion of the action against a set timescale. From the review performed, it was evident that the risk register is a continuously evolving monitoring tool that mirrors the needs of the Authority. Progress on risk actions</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>was straightforward to trace at different stages throughout the year. No deadlines were missed during 2016/17.</p> <p>Weaknesses No significant control weaknesses identified.</p>	

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

VERITAU

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

1.0 Background

Ongoing quality assurance arrangements

Veritau maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with relevant professional standards (specifically the Public Sector Internal Audit Standards). These arrangements include:

- the maintenance of a detailed audit procedures manual
- the requirement for all audit staff to conform to the Code of Ethics and Standards of Conduct Policy
- the requirement for all audit staff to complete annual declarations of interest
- detailed job descriptions and competency profiles for each internal audit post
- regular performance appraisals
- regular 1:2:1 meetings to monitor progress with audit engagements
- induction programmes, training plans and associated training activities
- the maintenance of training records and training evaluation procedures
- agreement of the objectives, scope and expected timescales for each audit engagement with the client before detailed work commences (audit specification)
- the results of all audit testing work documented using the company's automated working paper system (Galileo)
- file review by senior auditors and audit managers and sign-off of each stage of the audit process
- the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software)
- post audit questionnaires (customer satisfaction surveys) issued following each audit engagement
- performance against agreed quality targets monitored and reported to each client on a regular basis.

On an ongoing basis, a sample of completed audit files is also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. The results of this peer review are documented and any key learning points shared with the internal auditors and audit managers).

The Head of Internal Audit will also be informed of any general areas requiring improvement. Appropriate mitigating action will be taken (for example, increased supervision of individual internal auditors or further training).

Annual self-assessment

On an annual basis, the Head of Internal Audit will seek feedback from each client on the quality of the overall internal audit service. The Head of Internal Audit will also update the PSIAS self assessment checklist and obtain evidence to demonstrate conformance with the Code of Ethics and the Standards. As part of the annual appraisal process, each internal auditor is also required to assess their current skills and knowledge against the competency profile relevant for their role. Where necessary, further training or support will be provided to address any development needs.

The Head of Internal Audit is also a member of various professional networks and obtains information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes.

The results of the annual client survey, PSIAS self-assessment and professional networking are used to identify any areas requiring further development and/or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan. Specific actions may also be included in the Veritau business plan and/or individual personal development action plans. The outcomes from this exercise, including details of the Improvement Action Plan are also reported to each client. The results will also be used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the board³ as part of the annual report of the Head of Internal Audit.

External assessment

At least once every five years, arrangements must be made to subject internal audit working practices to external assessment to ensure the continued application of professional standards. The assessment should be conducted by an independent and suitably qualified person or organisation and the results reported to the Head of Internal Audit. The outcome of the external assessment also forms part of the overall reporting process to each client (as set out above). Any specific areas identified as requiring further development and/or improvement will be included in the annual Improvement Action Plan for that year.

2.0 Customer Satisfaction Survey – 2017

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2017. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 149 surveys (2016 – 124) were issued to senior managers in client organisations. 32 surveys were returned representing a response rate of 21% (2016 - 33%). The surveys were sent using Survey Monkey and respondents were asked

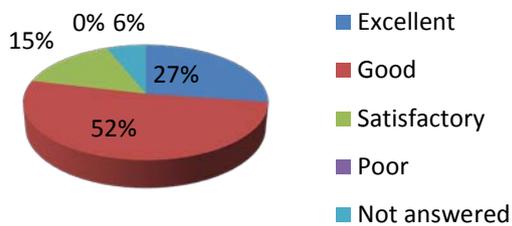
³ As defined by the relevant audit charter.

to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

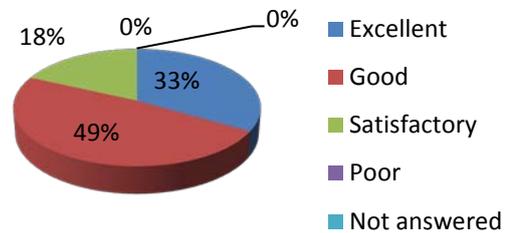
- Excellent (1)
- Good (2)
- Satisfactory (3)
- Poor (4)

Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

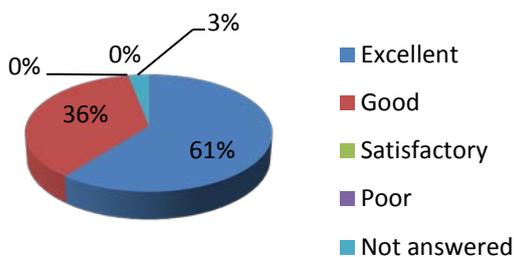
Quality of audit planning / overall coverage



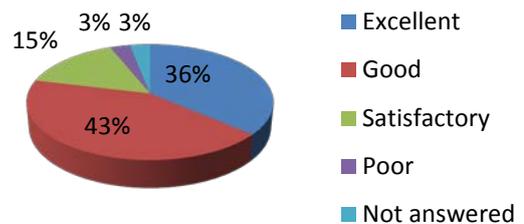
Provision of advice / guidance



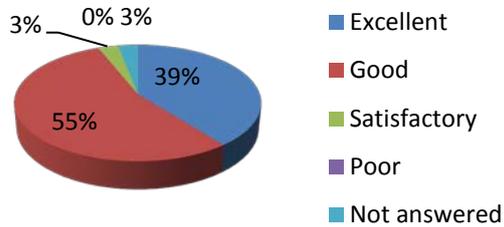
Staff - conduct / professionalism



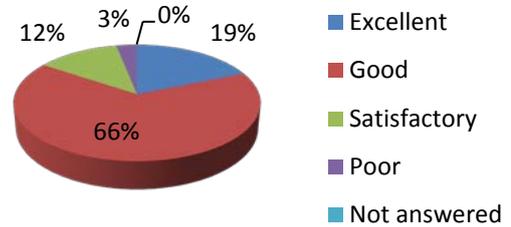
Ability to provide unbiased / objective opinions



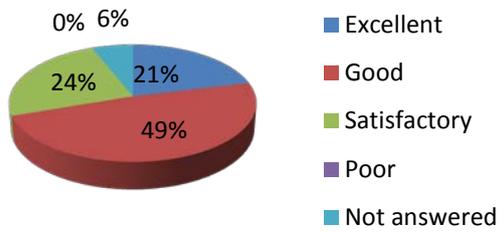
Ability to establish positive rapport with customers



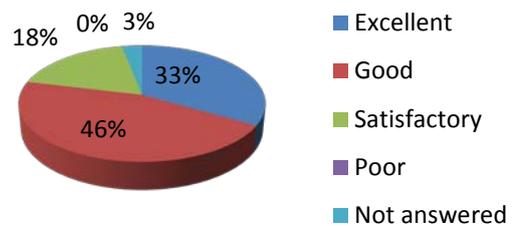
Knowledge of system / service being audited



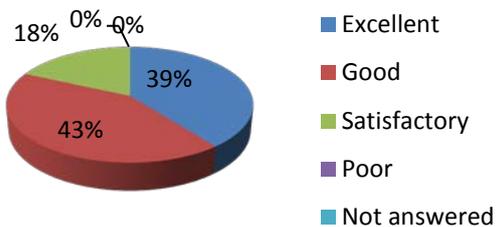
Ability to focus on areas of greatest risk



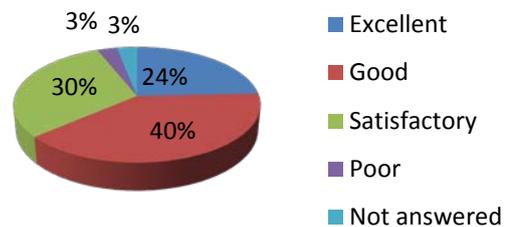
Agreeing scope / objectives of the audit



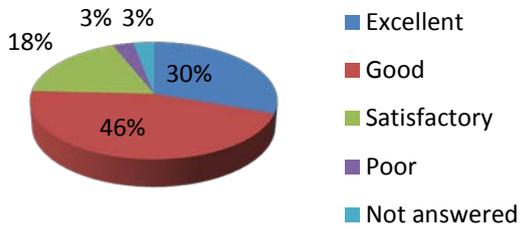
Minimising disruption to the service being audited



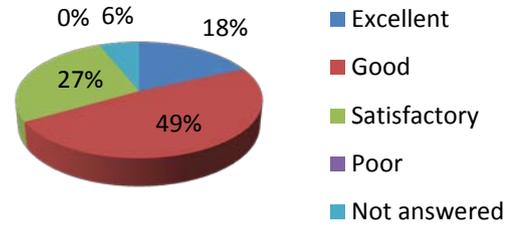
Communicating issues during the audit



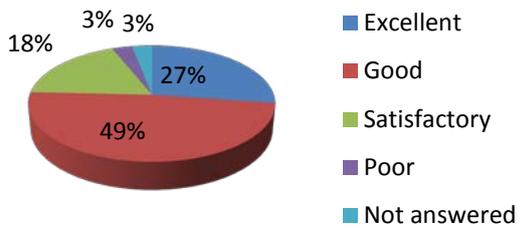
Quality of feedback at end of audit



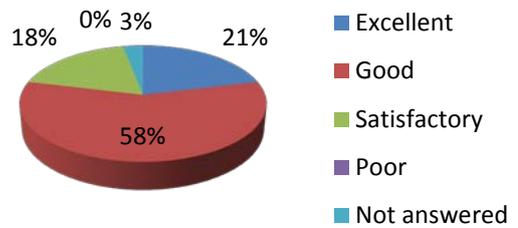
Accuracy / format / length / style of audit report



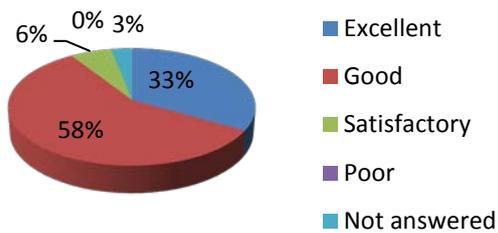
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2017 were:

	2017		2016	
Excellent	11	34%	10	24%
Good	19	60%	21	51%
Satisfactory	2	6%	4	10%
Poor	0	0%	6	15%

The feedback shows that the majority of clients continue to value the service being delivered.

3.0 Self Assessment Checklist – 2017

CIPFA prepared a detailed checklist to enable conformance with the PSIAS and the Local Government Application Note to be assessed. The checklist was originally completed in March 2014 but has since been reviewed and updated annually. Documentary evidence is provided where current working practices are considered to fully or partially conform to the standards.

In most areas the current working practices are considered to be at standard. However, a few areas of non-conformance have been identified. None of the issues identified are however considered to be significant. In addition, in some cases, the existing arrangements are considered appropriate for the circumstances and hence require no further action.

The following areas of non-conformance remain unchanged from last year:

<u>Conformance with Standard</u>	<u>Current Position</u>
Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Head of Internal Audit?	The Head of Internal Audit's performance appraisal is the responsibility of the board of directors. The results of the annual customer satisfaction survey exercise are however used to inform the appraisal.
Is feedback sought from the chair of the audit committee for the Head of Internal Audit's performance appraisal?	See above
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The scope (and charging arrangements) for any specific engagement will be agreed by the Head of Internal Audit and the relevant client officer. Engagements will not be accepted if there is any actual or perceived conflict of interest, or which might otherwise be detrimental to the reputation of Veritau.
Does the risk-based plan set out the - (b) respective priorities of those pieces of audit work?	Audit plans detail the work to be carried out and the estimated time requirement. The relative priority of each assignment will be considered before any subsequent changes are made to plans. Any significant changes to the plan will

<u>Conformance with Standard</u>	<u>Current Position</u>
	need to be discussed and agreed with the respective client officers (and reported to the audit committee).
Are consulting engagements that have been accepted included in the risk-based plan?	Consulting engagements are commissioned and agreed separately.
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Reliance may be placed on other sources of assurances where this is considered relevant. However, the Head of Internal Audit will only rely on other sources of assurance if he/she is satisfied with the competency, objectivity and reliability of the assurance provider.

4.0 External Assessment

As noted above, the PSIAS require the Head of Internal Audit to arrange for an external assessment to be conducted at least once every five years to ensure the continued application of professional standards. The assessment is intended to provide an independent and objective opinion on the quality of internal audit practices.

Whilst the new Standards were only adopted in April 2013, the decision was taken to request an assessment at the earliest opportunity in order to provide assurance to our clients. The assessment was conducted by Gerry Cox and Ian Baker from the South West Audit Partnership (SWAP) in April 2014. Both Gerry and Ian are experienced internal audit professionals. The Partnership is a similar local authority controlled company providing internal audit services to a number of local authorities.

The assessment consisted of a review of documentary evidence, including the self-assessment, and face to face interviews with a number of senior client officers and Veritau auditors. The assessors also interviewed an audit committee chair.

The conclusion from the external assessment was that working practices conform to the required professional standards. Copies of the detailed assessment report were provided to client organisations and, where appropriate, reported to the relevant audit committee.

5.0 Improvement Action Plan

Last year's quality assurance process identified the following required changes and improvements:

Change / improvement	Progress to date
The internal peer review highlighted the need for further training to be provided on sampling and testing.	Completed

No specific changes to working practices have been identified in 2017. However, to enhance the overall effectiveness of the service, the following areas are considered to be a priority in 2017/18:

- Further development of in-house technical IT audit expertise
- Implementation of the data analytics strategy (stage 1) and investment in new capabilities
- Improved work scheduling, clearer prioritisation of objectives for individual assignments to enable them to be managed within budget, and better communication and agreement with clients on timescales for completion of audit work.

6.0 Overall Conformance with PSIAS (Opinion of the Head of Internal Audit)

Based on the results of the quality assurance process I consider that the service generally conforms to the Public Sector Internal Audit Standards, including the *Code of Ethics* and the *Standards*.

The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities.



North York Moors National Park Authority

Internal Audit Plan 2017/18

Audit Manager: Ian Morton
Head of Internal Audit: Max Thomas

Circulation List: Members of the Finance, Risk, Audit and Standards
Committee
Management Team (including the S151 Officer)

Date: 4 September 2017

Introduction

- 1 This document sets out the planned 2017/18 programme of work for internal audit, provided by Veritau for the North York Moors National Park Authority.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards. In accordance with those standards, the Head of Internal Audit is required to provide an annual internal audit opinion to the Authority based on an objective assessment of the framework of governance, risk management and control. Our planned audit work includes coverage of all three areas.
- 3 The internal audit plan has been prepared on the basis of a risk assessment. This is intended to ensure limited audit resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the Authority's priorities and objectives. The content of the internal audit plan has been subject to consultation with directors and other senior officers.
- 4 The internal audit plan is submitted for formal approval by the Finance, Risk, Audit and Standards Committee who are responsible for monitoring progress against the plan and overseeing the work of internal audit. Changes to the plan will be agreed with the Director of Corporate Services and will be notified to the Committee. Proposed work is also discussed with the Authority's external auditors to ensure there is no duplication of effort. We will provide regular updates on the scope and findings of our work to the Finance, Risk, Audit and Standards Committee throughout 2017/18
- 5 The plan for 2017/18 is based on a total number of 23 days.

2017/18 Audit Plan

- 6 The plan includes work in the following areas:
 - **Strategic risks:** this work involves reviewing areas highlighted as specific risks in the Authority's corporate risk register.
 - **Financial systems:** to provide assurance on the key areas of financial risk. This work will help provide assurance that the controls for the key financial systems are adequate and effective. It will also support the work of the external auditors.
 - **Regularity / Operational audits:** this work will cover a number of the Authority's operational systems and areas.
 - **Technical / Projects:** to provide assurance on specific processes or key projects.

- **Client support, advice and follow up:** this is an allocation of time to support the delivery of the plan and provide advice on ad-hoc matters.

7 Details of the 2017/18 plan are set out in Appendix A.

Proposed Plan for 2017/18

Topic	Notes	Days
Key Financial Systems	A high level review of the key financial systems including implementation of previous recommendations	5
Procurement	A review of procedures to manage procurement within the Authority to ensure compliance with Financial Regulations and to manage procurement risks	4
Volunteers	A review of policies and procedures around the use of volunteers within the National Park. The audit will review how volunteers are managed to meet authority objectives and to ensure volunteers follow agreed procedures	5
Cyber Security	A review of processes to manage the risk of cyber attack. In addition to reviewing the processes in place to protect the Authority against attack the audit will also examine the contingency plans in place to mitigate any potential system failure.	4
Information Security compliance check	A check of compliance with data security policies to ensure the security of information and equipment	1
Risk Management	PSIAS requirement	1
Client Support and Advice	Liaison with external audit, attendance at Finance, Risk, Audit and Standards Committee, follow up etc	3
Total		23



North York Moors National Park Authority Internal Audit Charter

4 September 2017

1 Introduction

- 1.1 There is a statutory duty on the National Park Authority to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April 2017 CIPFA adopted revised Public Sector Internal Audit Standards (PSIAS)¹ compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at North York Moors National Park Authority will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the Authority's constitution, regulations and governance arrangements.

2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at North York Moors National Park Authority.

"Board" – the Finance, Risk, Audit and Standards Committee fulfils the responsibilities of the board, in relation to internal audit standards.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Director of Corporate Services, This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to any other director of the National Park Authority individually (including the Chief Executive) or collectively as Senior Management Team (SMT) in relation to:

- having direct and unrestricted access for reporting purposes
- consulting on risks affecting the National Park Authority for audit planning purposes
- approving the release of information arising from an audit to any third party.

¹ The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

3 Application of the standards

3.1 In line with the PSIAS, the mission of internal audit at North York Moors National Park Authority is:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

3.2 The Authority requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the Authority expects that the service:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

3.3. The PSIAS defines internal audit as follows.

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3.4 The National Park Authority acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit at the Authority. The Authority also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS.

4 Scope of internal audit activities

- 4.1 The scope of internal audit work will encompass the National Park Authority's entire control environment², comprising its systems of governance, risk management, and control.
- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

5 Responsibilities and objectives

- 5.1 The Head of Internal Audit is required to provide an annual report to the Finance, Risk, Audit and Standards Committee. The report will be used by the Committee to inform its consideration of the National Park Authority's annual governance statement. The report will include:
- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Authority's framework of governance, risk management, and control
 - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
 - a statement on conformance with the PSIAS (including the code of ethics and standards) and the results of the quality assurance and improvement programme.
- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:
- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
 - draw up an indicative risk based audit plan on an annual basis following consultation with the Finance, Risk, Audit and Standards Committee and

² For example the work of internal audit is not limited to the review of financial controls only.

senior management; the audit plan will also reflect the requirements of the Charter, the strategy, and proper practice

- consider trends and emerging issues that may impact the organisation.

5.3 In undertaking this work, responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the National Park Authority³
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Authority's arrangements for service delivery
- reviewing the Authority's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by members, officers, and members of the public and reporting findings to directors and members as appropriate for action
- advising the Authority on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example National Park Authority policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit, core principles and standards as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS⁴
- the codes of any professional bodies of which they are members
- standards of conduct expected by the National Park Authority
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

³ where third parties place reliance on the assurance provided then they do so at their own risk

⁴ Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

6 Organisational independence

- 6.1 It is the responsibility of directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.
- 6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.
- 6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:
- rotation of audit staff
 - ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice⁵

7 Accountability, reporting lines, and relationships

- 7.1 Internal audit services are provided under contract to the National Park Authority by Veritau Limited. The company is a separate legal entity⁶. Staff undertaking internal audit work will be employed by Veritau or another Veritau group company. The Director of Corporate Services acts as client officer for the contract, and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:
- National Park Authority, Corporate Board, or any Committee (including the Finance, Risk, Audit and Standards Committee)
 - Chief Executive
 - Director of Corporate Services
 - (Chief Finance Officer (Selby District Council) & Assistant Director Strategic Resources (NYCC)(S151 Officer)
 - Director of Legal & Democratic Services (Scarborough BC) (Monitoring Officer)

⁵ auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

⁶ Veritau is a shared service which provides internal audit services to a number of public sector organisations.

- other directors and service managers.
- 7.3 The Director of Corporate Services has a responsibility for ensuring that the National Park Authority has an effective system of internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the Director of Corporate Services). This is included in Appendix 1.
- 7.4 The Head of Internal Audit will report independently to Finance, Risk, Audit and Standards Committee⁷ on:
- proposed allocations of audit resources
 - any significant risks and control issues identified through audit work
 - their annual opinion on the Authority's control environment.
- 7.5 The Head of Internal Audit will informally meet in private with members of the Finance, Risk, Audit and Standards Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.
- 7.6 Finance, Risk, Audit and Standards Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The Committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary⁸.

8 Fraud consultancy services and non-audit services

- 8.1 The primary role of internal audit is to provide assurance services to the National Park Authority. However, the service may also be required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.
- 8.2 The prevention and detection of fraud and corruption is the responsibility of directors and service managers. However, all instances of suspected fraud and corruption should be notified to the Head of Internal Audit, who will decide on the course of action to be taken in consultation with relevant service managers and/or other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of

⁷ The committee charged with overall responsibility for governance at the National Park Authority.

⁸ The relationship between internal audit and Finance, Risk, Audit and Standards Committee is set out in more detail in Appendix 2.

elements of service provision. The scope of such work will be determined in conjunction with service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed in the year will be reported to the Finance, Risk, Audit and Standards Committee.

- 8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit will report any instances where audit independence or objectivity may be compromised to the Director of Corporate Services and the Finance, Risk, Audit and Standards Committee. The Head of Internal Audit will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

9 Resourcing

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are appropriate and sufficient to meet the requirements to provide an opinion on the National Park Authority's control environment. Where resources are judged to be inadequate or insufficient, recommendations to address the shortfall will be made to the Director of Corporate Services and to the Finance, Risk, Audit and Standards Committee.

10 Rights of access

- 10.1 To enable it to fulfil its responsibilities, the National Park Authority gives internal auditors employed by Veritau the authority to:
- enter all Authority premises or land, at any reasonable time
 - have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Authority
 - have access to any assets of the Authority and to require any employee of the Authority to produce any assets under their control
 - be able to require from any employee or member of the Authority any information or explanation necessary for the purposes of audit.
- 10.2 Directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including

where the National Park Authority's services are provided through partnership arrangements, contracts or other means.

11 Review

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Director of Corporate Services and the Finance, Risk, Audit and Standards Committee, for approval.

**Relationship between the Director of Corporate Services
and internal audit**

- 1 In recognition of the responsibilities of the National Park Authority's Director of Corporate Services (the Director) for internal audit, this protocol has been adopted to form the basis for a sound and effective working relationship between the Director and internal audit.
- (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Director.
 - (ii) Internal audit will review the effectiveness of the National Park Authority's systems of control, governance, and risk management and report its findings to the Director (in addition to the Finance, Risk, Audit and Standards Committee).
 - (iii) The Director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of his/her responsibilities. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Director.
 - (iv) The HoIA will notify the Director of any matter that in the HoIA's professional judgement may have implications for the Director in discharging his/her responsibilities.
 - (v) The Director will notify the HoIA of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
 - (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
 - (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the National Park Authority's control environment, then he/she will make representations to the Director, as well as to the Finance, Risk, Audit and Standards Committee.
 - (viii) The HoIA will report to the Director (and the Finance, Risk, Audit and Standards Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action.
 - (ix) The HoIA will report to the Director (and the Finance, Risk, Audit and Standards Committee) any instances where audit work has not conformed

to the code of ethics and/or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.

- (x) The Director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

Relationship between the Finance, Risk, Audit and Standards Committee and internal audit

- 1 The Finance, Risk, Audit and Standards Committee plays a key role in ensuring the National Park Authority maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Committee will seek to:
 - (i) raise awareness of key aspects of good governance across the organisation, including the role of internal audit and risk management
 - (ii) ensure that adequate resources are provided by the Authority so as to ensure that internal audit can satisfactorily discharge its responsibilities
 - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
 - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
 - (ii) Approval of the internal audit charter.
 - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the Authority's control environment.
 - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
 - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
 - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
 - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Finance, Risk, Audit and Standards Committee, the HoIA will:
 - (i) attend its meetings and contribute to the agenda
 - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
 - (iii) provide an annual summary of internal audit work, and an opinion on the Authority's control environment, including details of unmitigated risks or other issues that need to be considered by the Committee

Appendix 2

- (iv) establish whether anything arising from the work of the Committee requires consideration of the need to change the audit plan or vice versa
 - (v) highlight any shortfall in the resources available to internal audit or any instances where the independence or objectivity of internal audit work may be compromised and make recommendations to address these to the Committee
 - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee; this includes risks which management are failing to address but which the HoIA considers are unacceptable for the Authority
 - (vii) report any actual or attempted interference in the performance or reporting of internal audit work
 - (viii) participate in the Committee's review of its own remit and effectiveness
 - (ix) discuss the outcomes of the quality assurance and improvement programme, and consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of Finance, Risk, Audit and Standards Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.