North York Moors National Park Authority

Internal Audit Annual Report

2019-20

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: 22 June 2020

1. **Background**

1.1 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 annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

1.2 During the year to 31 March 2020, the Authority's internal audit service was provided by Veritau.

2. **Internal Audit Work Carried Out 2019/20**

2.1 During 2019/20, internal audit work was carried out across the full range of activities of the Authority. Internal audit work included:

Financial Systems – providing assurance on key areas of financial risk. This provides assurance to the Authority that the control environment is effective and the 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.

Follow up – providing assurance that the agreed actions from previous years' reports are being properly implemented.

No special investigations were carried out during the year.

2.2 **Appendix A** summarises the internal audit work carried out during the year and the opinion given for each report. **Appendix B** provides details of the key findings arising from our internal audit work and was previously provided to this committee on 2 February 2020. **Appendix C** provides an explanation of our assurance levels and priorities for management action.

3. **Professional Standards**

3.1 In order to comply with Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP). The objective of the QAIP is to ensure that working practices continue to conform to the required professional standards. The results of the QAIP should be reported to senior management and the Audit and Review Committee along with any areas of non-conformance with the standards. The QAIP consists of various elements, including:

   a. maintenance of a detailed audit procedures manual and standard operating practices;
   b. ongoing performance monitoring of internal audit activity;
   c. regular customer feedback;
   d. training plans and associated training and development activities;

e.   periodic self-assessments of internal audit working practices (to evaluate conformance to the Standards).

3.2   External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. An external assessment was last carried out in November 2018. The assessment showed that the service was conforming to the required professional standards.

3.3   A copy of the current QAIP is attached at appendix D. The results of the quality assurance process help to demonstrate that the service continues to generally conform to the Public Sector Internal Audit Standards

4.   **Audit Opinion and Assurance Statement**

4.1   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 board[2] 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.

4.2   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**. No reliance was placed on the work of other assurance providers in reaching this opinion, and there are no significant control weaknesses which need to be considered for inclusion in the Annual Governance Statement.

4.3   The opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on the Authority. The opinion at paragraph 10 is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control.

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[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.

2019/20 audit assignments completed

Audit	Status	Assurance Level
Budgeting	Completed	High Assurance
Contract Management	Completed	Reasonable Assurance
HR and Payroll	Completed	Substantial Assurance
IT Systems Maintenance and Development	Completed	Substantial Assurance
Information Security Compliance Check	Completed	Substantial Assurance

Summary of Key Issues from audits completed – 2019/20

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
Budgeting	High Assurance	The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that: • there is a robust budget setting procedure in place • amendments to budgets are timely, and appropriate, and approval arrangements are in place • budget monitoring is effective and variances are exceptional.	November 2019	**Strengths** The budget is set through the medium term financial strategy and the current process appears robust. So far, in this financial year, there has been little movement in the budgets, due to more accurate setting processes. Budget monitoring takes place on a monthly basis between finance, and budget managers. Key information is reported to Senior Leadership Team (SLT) on a monthly basis to facilitate proper challenge and governance around variances. In addition to this, car park and visitor centre budgets are reported as a separate item due to their volatile nature. **Weaknesses** There are currently no guidance notes in place for budget managers, to outline	Brief guidance notes will be developed for budget managers to support training to be given over the period to June 2020.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				the authority's expectations and requirements in order to achieve effective budget management.	
Contract Management	Reasonable Assurance	The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that: • staff with contract management responsibility have the skills and knowledge to effectively carry out their duties • contract delivery is appropriately monitored and managed to ensure quality and value • all contracts are recorded centrally to enable appropriate management.	January 2020	**Strengths** Contract management training for employees is provided by North Yorkshire County Council. All contracts within the sample reviewed were appropriately evaluated to ensure quality and value before the contract award notice was publicised. All contracts reviewed were appropriately signed and stored by the authority. All contracts were appropriately managed. All contracts had performance indicators in place to allow managers to monitor contracts appropriately. **Weaknesses** There is inconsistency in the guidance provided to help managers to monitor	The presentation from the contract management training provided by NYCC is to be circulated to all Contract Managers within NYMNPA. All contract managers will be reminded of the need to ensure that contract performance indicators are properly monitored. Officers will consider the CIPFA guidance on contingency plans for contracts and use it in a way that is proportionate to the size/nature of the authority's contracts. An effective system will be created to ensure suitable central contract monitoring.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
				contracts effectively. Not all contract managers have attended the NYCC training. Some contract managers were not monitoring performance indicators. No contingency plan is in place for contracts in case of contract failure. Contracts are not centrally monitored.	
HR and Payroll	Substantial Assurance	The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that: • new starters are set up accurately on both the HR and Payroll systems • all relevant new starter checks are carried out in a timely manner, and details are retained	December 2019	**Strengths** All five new starters tested were found to have been correctly set up on the payroll system. For all new starters, a checklist is completed outlining all the relevant documentation and checks that need to be completed by the organisation. All non-standard and additional payments checked had been authorised prior to payment. The amounts	There will be an update to the checklist to reflect current recruitment practice and ensure that a decision to allow a school leaver to start before receiving two references is signed off by the Head of Corporate Services. All staff will be reminded of the safeguarding policy, to ensure awareness and understanding. The Volunteering Team will be instructed to return any expenses claims that

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		appropriately • non-standard and additional payments are authorised and processed correctly • volunteers' expenses are accurately administered and paid in full on a regular basis		paid also reconciled to submitted timesheets. All volunteer expense payments checked had been submitted and paid in a timely manner. **Weaknesses** The new starter checklist does not reflect current practice for school leavers. There may be a lack of awareness of the safeguarding (DBS) policy. Volunteers do not always sign their expense claim forms.	are not properly signed.
IT Systems Maintenance and Development	Substantial Assurance	The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that: • there is a schedule of maintenance and update requirements in place • appropriate change	November 2019	**Strengths** All major systems are supported by third parties who manage the update process. Confirmation is received that all updates have been carried out and are operational. Microsoft updates are rolled out in phases, to reduce the risk of problems occurring. If there are any	The help desk facility will be used to provide an improved record of changes to the network.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
		management arrangements are in place.		additional security patches, these will be issued to the authority as and when required. The ICT team have a disaster recovery policy in place, which identifies key contacts, and arrangements in place for recovering all systems within the authority. **Weaknesses** Currently, the authority does not have a formal change management policy in place.	
Information Security Compliance Check	Substantial Assurance	The objective of the audit was to assess the extent to which data and assets were being held securely within the Authority's main offices.	December 2019	**Strengths** Data Security policies are in place. **Weaknesses** Some staff are still not security conscious and do not ensure that sensitive information and electronic equipment is securely stored.	A reminder will be issued to all staff of the requirement to keep all sensitive and personal information stored securely.

Audit Opinions and Priorities for Actions

Audit Opinions	
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.	
Our overall audit opinion is based on 5 grades of opinion, as set out below.	
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.   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
- attendance on relevant courses and access to e-learning material
- the maintenance of training records and training evaluation procedures
- membership of professional networks
- 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 and other associated 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
- regular client liaison meetings to discuss progress, share information and evaluate performance

On an ongoing basis, samples of completed audit files are also subject to internal peer review by a Quality Assurance group. The review process is designed to ensure audit work is completed consistently and to the required quality standards. The work of the Quality Assurance group is overseen by a senior audit manager. Any key learning points are shared with the relevant 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 board[3] 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.

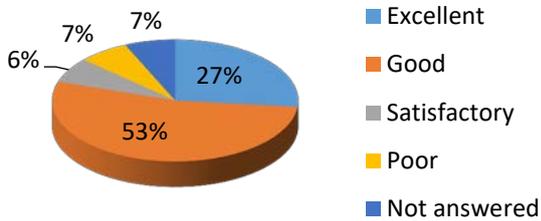**2.   Customer Satisfaction Survey – 2020**

Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2020. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 136 surveys (2019 – 171) were issued to senior managers in client organisations. 15 completed surveys were returned representing a response rate of 11% (2019 - 12%). The surveys were sent using Survey Monkey and the respondents were required to identify who they were. Respondents were asked to rate the different elements of the audit process, as follows:

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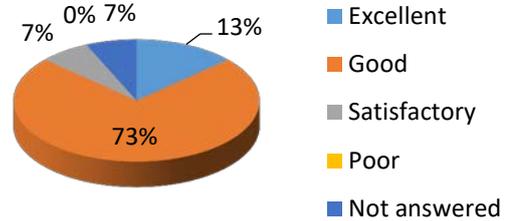-   Satisfactory (3)
-      Poor (4)

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

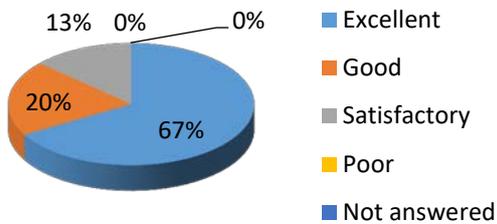---

[3] As defined by the relevant audit charter.
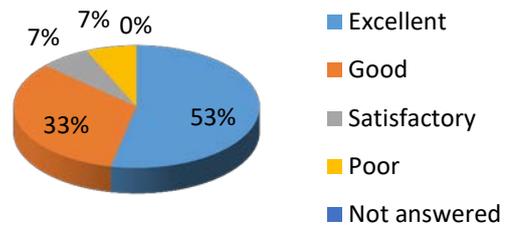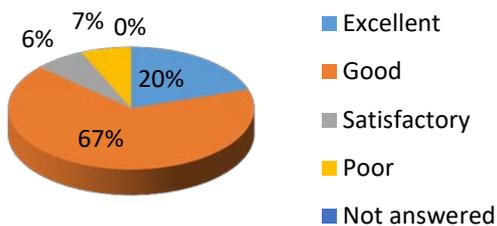
Quality of audit planning / overall coverage

Excellent 27%
Good 53%
Satisfactory 6%
Poor 7%
Not answered 7%

Provision of advice / guidance

Excellent 13%
Good 73%
Satisfactory 7%
Poor 0%
Not answered 7%

Staff - conduct / professionalism

Excellent 67%
Good 20%
Satisfactory 13%
Poor 0%
Not answered 0%

Ability to establish positive rapport with customers

Excellent 53%
Good 33%
Satisfactory 7%
Poor 7%
Not answered 0%

Knowledge of system / service being audited

Excellent 20%
Good 67%
Satisfactory 6%
Poor 7%
Not answered 0%

Minimising disruption to the service being audited

Excellent 33%
Good 47%
Satisfactory 7%
Poor 0%
Not answered 13%
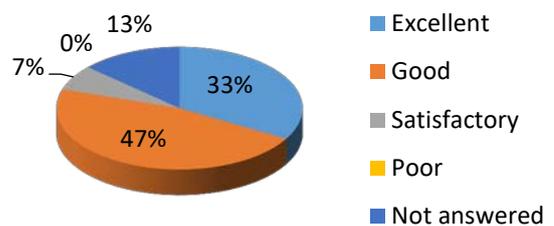
Communicating issues during the audit

- 0%
- 13%
- 0%
- 27% Excellent
- 60% Good
- Satisfactory
- Poor
- Not answered
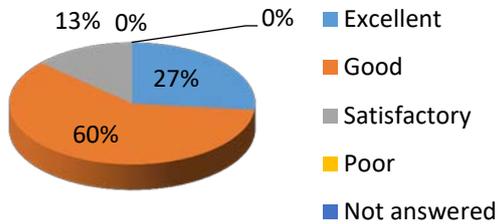
Quality of feedback at end of audit

- 13%
- 0%
- 7%
- 33% Excellent
- 47% Good
- Satisfactory
- Poor
- Not answered
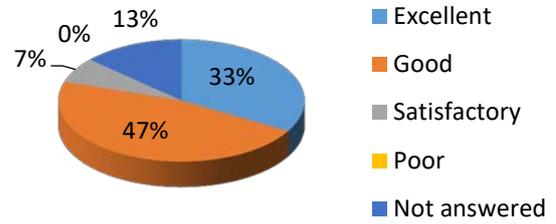
Accuracy / format / length / style of audit report

- 0%
- 7%
- 20%
- 27% Excellent
- 46% Good
- Satisfactory
- Poor
- Not answered
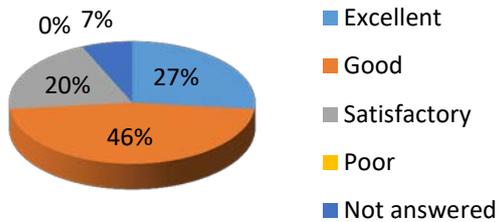
Relevance of audit opinions / conclusions

- 0%
- 13%
- 13%
- 20% Excellent
- 54% Good
- Satisfactory
- Poor
- Not answered
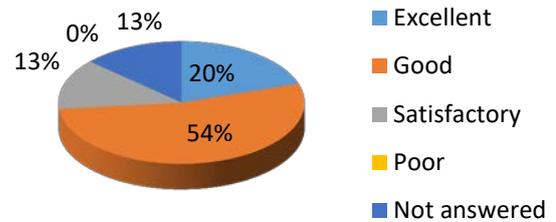
Overall rating for Internal Audit service

- 0%
- 7%
- 0%
- 20% Excellent
- 73% Good
- Satisfactory
- Poor
- Not answered
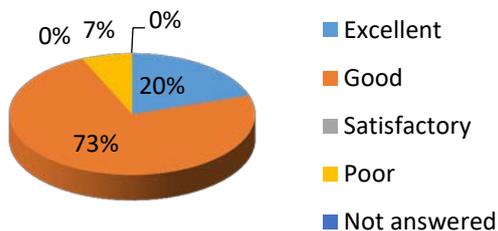
The overall ratings in 2020 were:

	2020		2019	
Excellent	3	20%	11	55%
Good	11	73%	6	30%
Satisfactory	0	0%	3	15%
Poor	1	7%	0	0%

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

3. Self-Assessment Checklist – 2020

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 and 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 April 2019, CIPFA published a modified version of the checklist and this has been used to complete the latest self-assessment. The revised checklist includes some additional guidance on what constitutes compliance, and amalgamates a number of relevant checklist areas.

The current working practices are considered to be at standard. However, a few areas of non-conformance have been identified. These areas are mostly as a result of Veritau being a shared service delivering internal audit to a number of clients as well as providing other related governance services. None of the issues identified are considered to be significant and the existing arrangements are considered appropriate for the circumstances and hence require no further action.

The table below showing areas of non-compliance has been updated to reflect the new checklist.

Conformance with Standard	Current Position
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 respective priorities 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 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?	An approach to using other sources of assurance, where appropriate is currently being developed (see below).

4.   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.

An external assessment of Veritau internal audit working practices was undertaken in November 2018 by the South West Audit Partnership (SWAP). SWAP is a not for profit public services company operating primarily in the South West of England. As a large shared service internal audit provider it has the relevant knowledge and expertise to undertake external inspections of other shared services and is independent of Veritau.

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 audit committee chairs.

A copy the external assessment report is available on request.

The report concluded that Veritau internal audit activity generally conforms to the PSIAS[4] and, overall, the findings were very positive. The feedback included comments that the internal audit service was highly valued by its member councils and other clients, and that services had continued to improve since the last external assessment in 2014.

5.   Improvement Action Plan

The external assessment identified a number of areas for further consideration and possible improvement. An action plan was developed to address these areas. One action remains to be completed, as follows:

Recommendation	Current Position
Whilst reliance may be placed on other sources of assurance, the self-assessment brought attention to the fact that there has not been an assurance mapping exercise to determine the approach to using other sources of assurance. Completion of such an exercise would ensure that work is coordinated with other assurance bodies and limited resources are not duplicating effort. (Attribute Standard 2050).	This work is ongoing. Other potential sources of assurance have been identified for each client. This information is now being used to develop more detailed assurance mapping. A standard methodology and approach is also being developed.

In 2019/20, the Quality Assurance group reviewed internal processes for undertaking and recording testing of internal controls. The review identified that testing methodologies were generally good, were relevant to the controls being tested and that appropriate conclusions were being reached. However, improvements were needed to the documentation of testing in some areas. The review also found some cases where the use of data analytics should have been considered, rather than relying on sample testing. This could have improved the level of assurance obtained and provided more useful data for the client. Further training will be delivered to the internal audit teams, covering these areas, in 2020/21.

The following areas will also continue to be a priority in 2020/21:

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[4] PSIAS guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating.

- Further development of in-house technical IT audit expertise
- Investment in new data analytics capabilities

We also plan to review the audit opinions used for reporting to ensure they remain aligned with best practice.

6.   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.