

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

12 August 2013

Internal Audit Annual Report 2012/13

1. Purpose of the Report

- 1.1 To inform Members of the Internal Audit work undertaken in 2012/13.
- 1.2 To inform Members of the Audit Opinion for 2012/13.

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) on behalf of North Yorkshire County Council. The Statement of Assurance will support the Annual Governance Statement (AGS) which forms part of the Authority's Financial Statements.
- 2.2 Within the report there is a summary of the findings of the audit work from individual audits completed in the year, to support the overall opinion **Appendix 1**.
- 2.3 The Auditors give an opinion for each of the specific systems or areas they have reviewed. An explanation of the assurance levels and finding priorities can be seen at **Appendix 2**.
- 2.4 Veritau carried out its work in accordance with the Cipfa Code of Practice for Internal Audit in Local Government.
- 2.5 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
- 2.6 This was the first year that the Audit Plan was focused on the Risk Register and therefore, has examined a number of areas which had not hitherto been subject to audit. The benefit of this change of approval is that the officers have received added value in terms of the recommendations made. The traditional financial systems audit remains at a substantial level of assurance.

3 Conclusion

- 3.1 The overall opinion of the Head of Internal Audit on the controls operated at the NYMNP is that they provide **Moderate Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

4. Recommendation

4.1 That Members note the content of this report.

Contact Officer:
Irene Brannon
Director of Corporate Services
01439 772700

Background documents to this report

File Ref

None



North York Moors National Park Authority

Internal Audit Annual Report

2012-13

Audits Completed	
High Assurance	0
Substantial Assurance	1
Moderate Assurance	2
Limited Assurance	0
No Assurance	0

Audit Opinion

Moderate Assurance

Audit Manager:
Client Relationship Manager:
Head of Internal Audit:

John Barnett
Roman Pronyszyn
Max Thomas

Circulation List:

Members of the FRAS Committee
Chief Executive
Corporate Director

Date: 12 August 2013

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the Code of Practice, the Head of Internal Audit is required to report to those charged with governance the findings of audit work, provide an annual opinion on the effectiveness of the Authority's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 2 During the year to 31 March 2013 the Authority's internal audit service was provided by Veritau Ltd.

Internal Audit Work Carried Out 2012/13

- 3 During the 2012/13 year internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:
 - **Fundamental/Material Systems;** work in this area provides both assurance to NYMNP and helps support the work of external audit. During the year, four material systems were included in the Key Financials audit which was given a Substantial Assurance rating.
 - **Systems/Operational;** three areas were reviewed; HR was a consultative exercise and therefore not rated; Fleet & Vehicles was "moderate" (risks being around the management and monitoring of vehicles); ICT was "moderate" (risks around the IT Strategy, disaster recovery, network connections and secure disposal of IT equipment/data).
 - **Follow Up;** this work covers those audits where significant risk has been identified and is intended to provide assurance that the agreed recommendations are being properly implemented.
 - **Investigations;** No special investigations were carried out during the year.
- 4 **Appendix 1** provides a summary of the findings of our audit work, and **Appendix 2** an explanation of our assurance levels and finding priorities.

Audit Opinion and Assurance Statement

- 5 All Veritau internal audit work was conducted in accordance with both mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government. In connection with the report to an Audit Committee, the guidance states that:

"The Head of Internal Audit's formal annual report to the organisation should:

- (a) include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment,
- (b) disclose any qualifications to that opinion,
- (c) present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,

- (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement,
- (e) compare work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria,
- (f) comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

6 The overall opinion of the Head of Internal Audit on the controls operated at the NYMNP is that they provide **Moderate Assurance**. There are no qualifications to that opinion. No reliance was placed on the work of other assurance bodies in reaching this opinion.

The Assurance:	
Risk Management	I am satisfied that the Authority has Risk Management arrangements in place.
Governance	Our work this year leads me to the overall opinion that the Corporate Governance arrangements are sound.
Internal Control	My overall opinion is that the internal controls within the financial system and key operational systems in operation throughout the year are fundamentally sound.

Max Thomas
 Director and Head of Internal Audit
 Veritau Ltd

12 August 2013

Summary of Key Issues from the audits completed

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Key Financial Systems	Substantial Assurance	<p>A systems-based audit of the main financial systems in use at the National Park. The audit included a high level review of the key controls for the following systems:</p> <p>Main Accounting System – including budgetary control procedures Income & Debtors – a focus on the income arising from NYMNP car parks Creditors & Purchasing - included compliance with procurement procedures Payroll - included segregation of duties and other detect/prevent controls.</p>	25 June 2013	<p>Strengths There is an experienced, small team of finance officers meeting the challenges and undertaking their duties effectively.</p> <p>Key Weaknesses The Member approved budget for 2012/13 had not been fully loaded into the General Ledger at the start of the financial year.</p> <p>It was found that there is no segregation of duties or separate authorisation, between the preparation of bank reconciliations and the undertaking of the corrective journals necessary in order to achieve a balance. The bank reconciliation, at the date of the audit in December, had not been carried out since July 2012</p>	<p>The approved 'start budget' will be loaded within 10 working days after the start of the financial year, including any unallocated expenditure and any expenditure to be funded from reserves. <i>Immediate</i></p> <p>The bank reconciliations and corrective journals will be segregated and the reconciliations, themselves, carried out on a monthly basis thereafter. <i>Immediate</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				which includes the reconciliations on the giro account (Santander Business Account) and the business credit card reconciliation. Since the audit the bank reconciliations have been brought up to date.	
ICT	Moderate Assurance	A high level review of the General Computer Controls at the National Park. The audit also reviewed the ICT strategy and social media output and disaster recovery arrangements.	9 July 2013	<p>Strengths The IT service and social media presences are managed by experienced and efficient officers who have a good understanding of the risks and controls in these areas.</p> <p>Key Weaknesses Details of the arrangement with Company X for removing data from IT equipment are unclear and there is no contract in place, an apparent breach of the Data Protection Act (1998). There is no single source of assurance that no data remain on all devices which have been disposed of as</p>	<p>As Company X is no longer trading, we need to find a new disposal partner. Once selected, we will enter into a written contract with them, clearly specifying the services we require to be carried out.</p> <p>When equipment is disposed of, we will also ensure that we can prove the secure destruction of</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>the inventory entries and serial numbers on certificates provided by Company X are not cross-referenced.</p> <p>It is unclear whether NYMNP can be sure that its data may not remain on leased devices such as MFD's, when they are reclaimed by the provider.</p> <p>The NYNet and NYMNP network connections are entirely dependent on the Old Vicarage site and so if that site were lost, it would be impossible for dependent functions to be provided.</p> <p>The disaster recovery plan has never been tested.</p> <p>The lifespan of the ICT Strategy is 2011-14, whereas the Authority's Business Plan is 2012-15. Because of changes in key personnel, it is unclear if staff were aware of the ICT Strategy when the Business</p>	<p>each item.</p> <p>We will seek further advice from suppliers of leased equipment such as MFD's that these do not present a data loss risk.</p> <p><i>1 October 2013</i></p> <p>We will work towards increasing resilience.</p> <p><i>31 March 2014</i></p> <p>We will carry out a test of the DR Plan and take any corrective action necessary.</p> <p><i>31 March 2014</i></p> <p>We will review the ICT Strategy and ensure that it supports the direction of the Business Plan. Future ICT Strategies will also take their lead from, and support, the wider strategic objectives of the Authority, as expressed for example in its</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				Plan was drawn up.	Business Plans. 31 March 2014
Fleet & Vehicles	Moderate Assurance	An audit of the National Park's arrangements for the procurement and use of vehicles. The audit reviewed policies and procedures, composition of the fleet, pool car usage, mileage allowances and value for money. The audit also considered the planned procurement of TrafficMaster analysis software, in the context of the need to ensure an environmentally sustainable solution.	25 June 2013	<p>Strengths The day to day management of the fleet is efficiently undertaken by able officers however there are certain areas within the process which could be improved to provide a more secure and cost effective service.</p> <p>We identified two areas where cost savings could be instigated.</p> <p>1) The Authority does have a tank of diesel fuel, at the depot in Helmsley, for filling up the Rangers vehicles but pool cars are filled up at the local garage. The depot tank was used to supply Bio-diesel, however the tank now supplies normal diesel fuel so management should consider the costs benefits (if any) of filling all vehicles from the depot diesel tank.</p> <p>There are a number of</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>vehicle tracking systems on the market which would satisfy the perceived need to be able to track vehicles and identify where vehicles were at any given point in time. It would also allow for more detailed monitoring of vehicle usage e.g. accurate records of journeys, idle time etc, which could lead to some of the current paper records becoming obsolete with the resultant savings in time cost. It is for management to decide if these benefits out way the cost of fitting a system to each vehicle.</p> <p>Key Weaknesses There are no formal policies in place in connection with the authority's fleet of vehicles. The policies should cover such areas as: purchasing or leasing; disposal; allocation of vehicles; private usage and HMRC rules; driver contributions and costs recovery; Insurance.</p>	<p>A set of formal policies relating to vehicle and fleet management will be agreed and published. <i>1 October 2013</i></p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>Each vehicle has its own Vehicle Log Sheet [VLS] which is completed daily showing time in/out and miles in/out. The driver also records brief details of journeys and reason for travel. Any fuel issued is recorded on these sheets. All the information required to monitor fuel usage is there but there was no evidence to suggest that management review these sheets at any time.</p> <p>Confirmed that there is no formal system for ensuring that vehicles are taxed & MOT'd within timescales other than relying on allocated drivers to arrange this.</p>	<p>Vehicle log sheets will be reviewed and signed off by an appropriate officer on an adhoc predetermined basis. <i>1 August 2013</i></p> <p>A central record will be set up, maintained and reviewed for all vehicles detailing when servicing, MOTs and Road Fund License are due. This will be reviewed monthly to highlight any that are due. <i>1 October 2013</i></p>
HR Policies	As this was not an 'audit' as such, but rather a consultative assignment, we give no	The objective of the audit was to review NYMNP HR policies and give an opinion whether they are effective and comply with current legislative requirements and best practice.	5 December 2012	HR Policies were reviewed in their entirety and suggested amendments made to ensure they comply with current legislation and best practice.	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
	opinion.				

Audit Opinions and Priorities for Actions

Audit Opinions	
<i>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.</i>	
<i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i>	
Opinion	Assessment of internal control
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>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.</i>
<i>Moderate assurance</i>	<i>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.</i>
<i>Limited Assurance</i>	<i>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.</i>
<i>No Assurance</i>	<i>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.</i>

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