

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

19 November 2018

Internal Audit Annual Report 2017/18

<p>1. Purpose of the Report</p>
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| <p>1.1 To inform Members of the Internal Audit work undertaken and the audit opinion in 2017/18.</p> |
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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 supports the Annual Governance Statement (AGS) which formed part of the Authority's Financial Statements.

3. **Annual Audit Report 2017/18**

- 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. The audit in relation to the management systems used by the Volunteering Team is still in draft and will be reported back to Members at the next meeting of this Committee.
- 3.2 Veritau carried out its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
- 3.3 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; as such it underpins all of the Authority's Priorities.
- 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. **Financial and Staffing Implications**

- 4.1 None.

5. **Sustainability and Legal Implications**

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

6. Recommendation

6.1 It is recommended that Members note the content of this report and approve the plan at **Appendix 1**.

Contact Officer:
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S151 Officer
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Background documents to this report
None

File Ref



North York Moors National Park Authority

Internal Audit Annual Report

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: 3 September 2018

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 2018, the Authority's internal audit service was provided by Veritau Limited.

Internal Audit Work Carried Out 2017/18

- 3 During 2017/18, internal audit work was carried out across the full range of activities of the Authority. The main areas of internal audit activity included:

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.

- 4 During the year one additional assignment was carried out at the request of management as a result of concerns being raised by a whistleblower. The results of the audit review were reported to management.
- 5 **Appendix A** summarises internal audit work planned and completed. This includes work completed during the 2016/17 year that has not previously been reported to committee. **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

Appendix A**2016/17 audit assignments not previously reported to committee**

Audit	Status	Assurance Level
PCI DSS	Completed	Reasonable Assurance

2017/18 audit assignments completed

Audit	Status	Assurance Level
Key Financial Systems	Completed	Substantial Assurance
Cyber Security	Completed	Substantial Assurance
Procurement	Completed	Substantial Assurance
Volunteers	Draft	Reasonable Assurance
Risk Management	Completed	High Assurance
Information Security Compliance Check	Completed	Reasonable Assurance

Appendix B

Summary of Key Issues from audits completed – 2016/17

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Payment Card Industry Data Security Standard	Reasonable Assurance	The audit consisted of a review of the authority's processes and controls in regards to the Payment Card Industry Data Security Standard.	23 November 2017	<p>Strengths Overall it was found that the authority fully recognises the need for compliance, and has taken many practical steps towards achieving this, against the backdrop of a very complex regulatory regime. A compliance manual has been developed although at the time of the audit, it was in a draft stage and required completion. However this would form an excellent base from which the authority can achieve and maintain compliance.</p> <p>Weaknesses It was found that operational procedures lacked sufficient detail and consistency. Guidance notes for visitor centre staff were not yet developed. Some staff had not</p>	Training to be given to Visitor Centre Staff and refreshed annually. Confirmation would be gained from the Portal Manager in regards to the compliance of payment methods.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				received relevant training or had only been trained on a one-off basis, rather than annually. The Authority had not established who is responsible for maintaining the integrity of some payment methods.	

Summary of Key Issues from audits completed – 2017/18

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
Key Financial Systems	Substantial Assurance	<p>The audit consisted of a high level review of the main accounting, creditors, debtors and payroll systems. The audit also reviewed the planning and implementation of the SunSystem update. This update was in its final implementation stage during the week of the audit.</p>	7 June 2018	<p>Strengths The Key Financial Systems were found to be working effectively. The budget monitoring process was found to be effective with monthly reports produced that contain sufficient detail to enable managers to monitor financial performance. Purchasing cards were found to be used to make appropriate purchases with the correct authorisation. There was evidence of suitable preparation for the update to SunSystem. A comprehensive project plan was found to be in place which included responsibilities and timescales for the update.</p> <p>Weaknesses It was found that the authority is currently retaining Equal Opportunities forms on</p>	<p>Following the removal of the Equal Opportunities monitoring section from the Authority's application forms, work will now commence to ensure that existing Equal Opportunities information is removed from personnel files.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				<p>personnel files without actually participating in any monitoring of these. This practice could mean that the Authority is in breach of Data Protection regulations.</p>	
Cyber Security	Substantial Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:</p> <ul style="list-style-type: none"> • ICT controls prevent unauthorised access to the authorities' data • Suitable disaster recovery plans are in place • Sufficient training is provided to prevent cyber attacks. 	21 June 2018	<p>Strengths Cyber security arrangements were found to be effective. The ICT team is small therefore there is hands on involvement and close monitoring of potential incidents. Up to date systems are in place to protect against suspicious activity or email phishing attacks. Back ups are regularly carried out. A tested DR plan is in place. All staff are provided with cyber security awareness training.</p> <p>Weaknesses Working practices are in place to manage requests from end users. This is</p>	The Spicework's Helpdesk installation that is currently in testing will be fully implemented so that it captures and records all staff movement, leavers and new starters.

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
				usually done via email and due to the size of the authority these practices appear to be working effectively. However, it is best practice to formalise these procedures. Development of a Change Request Form would address this and ensure information can be retained centrally.	
Procurement	Substantial 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"> • Tender procedures comply with the authority's procurement policies and directive on spend • There is a contract register which is accurate, up to date and complete 	11 April 2018	<p>Strengths Processes performed by officers were found to be largely compliant with the Authority's procurement policies. We found good awareness of the policies and the importance of securing best value during procurement activities.</p> <p>Weaknesses Improvements are required to the record of contracts to ensure that there is complete information on what procurement has taken place and what</p>	<p>Ensure that the Finance team have easier access to the MyTender data relating to procurements above £5K Remind staff of their responsibility to ensure that the Finance team are aware of all contracts above £5K and the level of information required Advice to be sought from NYCC's Procurement team on tracking supplier spends. Remind staff of the need to keep a record of price comparisons where this work has been done.</p>

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<ul style="list-style-type: none"> • Procurement activities deliver best value. <p>The audit focused on the processes around selecting and evaluating suppliers and did not include review of arrangements for managing contracts after they had been awarded.</p>		<p>contracts the authority has. A number of suppliers with total spend above £10,000 were found to have no contract in place. Monitoring of aggregated spend across the organisation would highlight areas where a contract may provide better value in the long term. There were also cases where evidence to support the quotation process had not been retained.</p>	
Risk Management	High Assurance	<p>The purpose of this audit was to provide assurance to management that risk management procedures and controls will ensure that:</p> <ul style="list-style-type: none"> • The identification of risks is comprehensive and timely • Sound arrangements are in place to mitigate identified 	21 June 2018	<p>Strengths The key risks to the achievement of the authority's objectives are reviewed and updated on an annual basis to reflect any changes in the risk landscape. Risks are removed, updated and introduced as per the decision of the Finance, Risk, Audit and Standards Committee (FRASC). Testing demonstrated that there is a designated</p>	

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed & Follow-Up
		<p>risks</p> <ul style="list-style-type: none"> • Arrangements for monitoring the risk management system are robust 		<p>owner for each risk and that current controls and appropriate mitigating actions have been identified to prevent risk materialisation</p> <p>Weaknesses No significant control weaknesses identified.</p>	
Information Security Compliance Check	Reasonable Assurance	<p>The purpose of this audit was to assess the extent to which data is being held securely in the council's offices. This included hard copy personal and sensitive information as well as electronic items such as laptops and removable media.</p>	20 June 2018	<p>Strengths Data Security policies are in place</p> <p>Weaknesses Some staff are not being security conscious and do not ensure that sensitive information and electronic equipment is securely stored.</p>	<p>Reminder to be issued to all staff about the requirement to keep passwords private</p> <p>Reminder to be issued to all staff that information that identifies individuals and electronic equipment should not be left out on desks</p> <p>Work on GDPR compliance will also enhance data security awareness</p>

Appendix C

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**1.0 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 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.

On an ongoing basis, samples of completed audit files are also subject to internal peer review by a senior audit manager to confirm quality standards are being maintained. 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 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 – 2018

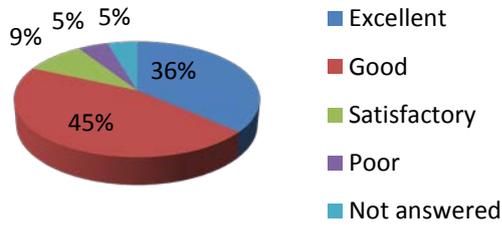
Feedback on the overall quality of the internal audit service provided to each client was obtained in March 2018. Where relevant, the survey also asked questions about the counter fraud and information governance services provided by Veritau. A total of 159 surveys (2017 – 149) were issued to senior managers in client organisations. 22 surveys were returned representing a response rate of 14% (2017 - 21%). The surveys were sent using Survey Monkey and respondents were asked 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)

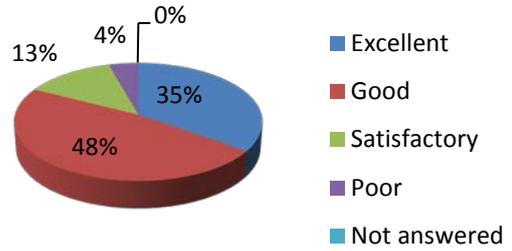
Respondents were also asked to provide an overall rating for the service. The results of the survey are set out in the charts below:

³ As defined by the relevant audit charter.

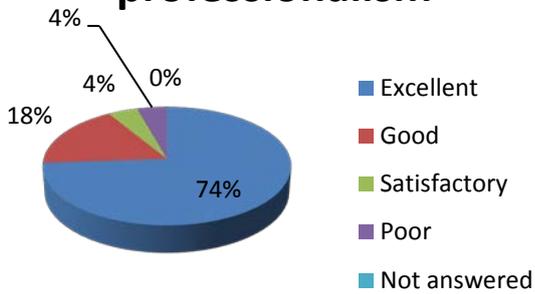
Quality of audit planning / overall coverage



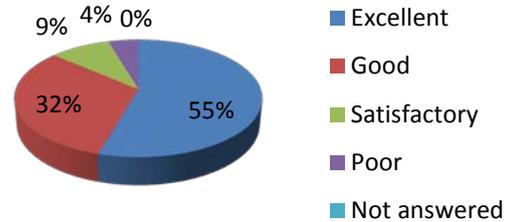
Provision of advice / guidance



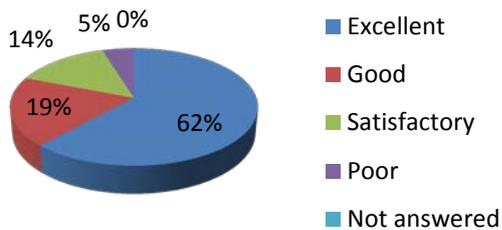
Staff - conduct / professionalism



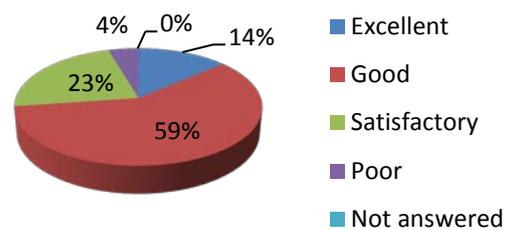
Ability to provide unbiased / objective opinions



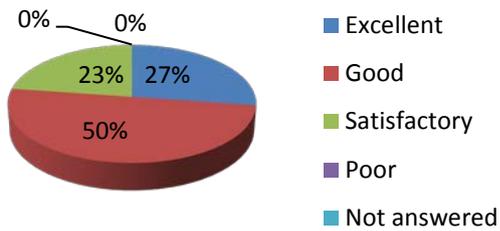
Ability to establish positive rapport with customers



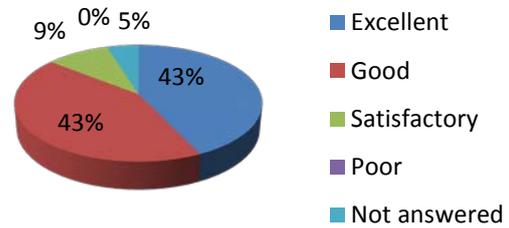
Knowledge of system / service being audited



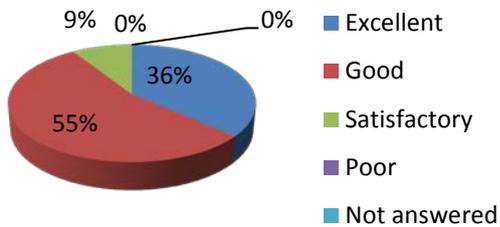
Ability to focus on areas of greatest risk



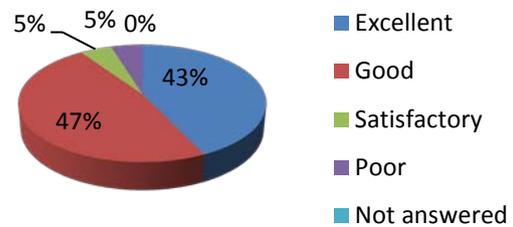
Agreeing scope / objectives of the audit



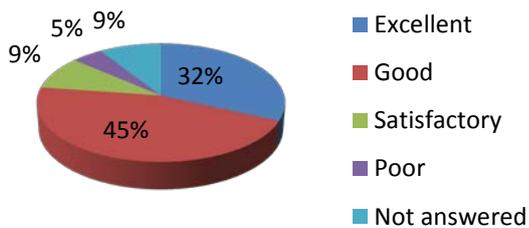
Minimising disruption to the service being audited



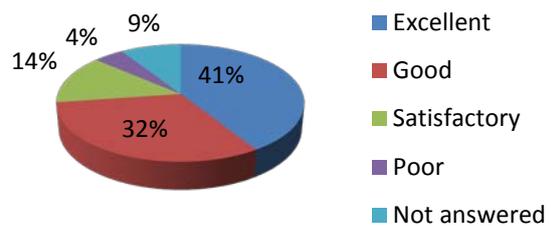
Communicating issues during the audit



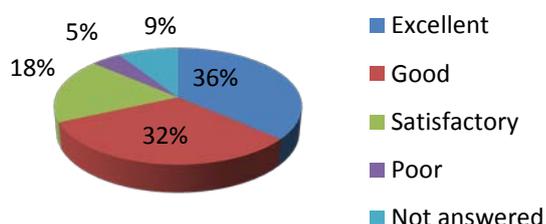
Quality of feedback at end of audit



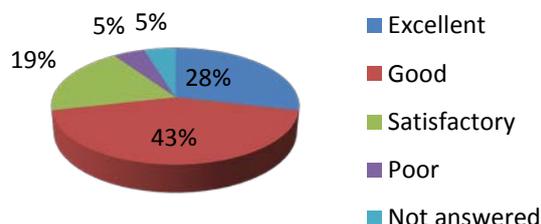
Accuracy / format / length / style of audit report



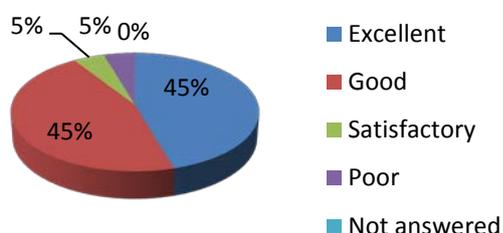
Relevance of audit opinions / conclusions



Agreed actions are constructive / practical



Overall rating for Internal Audit service



The overall ratings in 2018 were:

	2018		2017	
	Count	Percentage	Count	Percentage
Excellent	10	45%	11	27%
Good	10	45%	19	63%
Satisfactory	1	5%	2	10%
Poor	1	5%	0	0%

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

3.0 Self Assessment Checklist – 2018

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.

The current working practices are generally 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 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 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

No specific changes to working practices have been identified in 2018. However, to enhance the overall effectiveness of the service, the following areas continue to be a priority in 2018/19:

- 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.