Peak District National Park Authority

Internal Audit Annual Report

2019-20

Assistant Director –
Audit Assurance: Ian Morton
Head of Internal Audit: Max Thomas

Circulation List: Members of the National Park Authority
Director of Corporate Strategy & Development
Chief Finance Officer (S151 Officer)

Date: 22/5/2020

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 annual internal audit 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 2020, the Authority's internal audit service was provided by Veritau.

Internal Audit Work Carried Out 2019/20

3   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.

4   No special investigations were carried out during the year.

5   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 appendix C provides an explanation of our assurance levels and priorities for management action.

Professional Standards

6   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).

7   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.

8   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.

Audit Opinion and Assurance Statement

9   In connection with reporting, the relevant professional standard (2450) states that the Chief Audit Executive (CAE)[1] should provide an annual report to the board[2]. The report should include:

    (a)   details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)

    (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)   an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (ie the control environment)

    (d)   disclosure of any qualifications to that opinion, together with the reasons for that qualification

    (e)   details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement

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[1] The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.
[2] The PSIAS refers to the board. This is taken to be the National Park Authority.

(f)   a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

10   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.

11   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.

Table of 2019/20 completed audit assignments

Audit	Status	Assurance Level
Contract Management	Completed	High Assurance
Business Continuity	Completed	High Assurance
Planning	Completed	Substantial Assurance
Main Accounting	Completed	High Assurance
Performance Management	Completed	High Assurance
Information Security Compliance Check	Completed	Substantial Assurance
Income Generation	Completed	Substantial Assurance

Summary of Key Issues from audits completed in 2019/20

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
Contract Management	High Assurance	The audit provided assurance to management that schemes are completed in line with the frameworks in place, and monitoring of schemes is appropriate and evidenced.	October 2019	**Strengths** All contracts were found to be procured in line with the Authority's procurement guidelines. A flexible approach is taken for high value conservation works to ensure best value for money. Monitoring of schemes was found to be proportionate to the scale of works completed. **Weaknesses** There is no formal guidance to ensure contract management tasks are performed to a proportionate level.	Processes to be improved to include formal guidelines for reporting requirements. Conservation Contracts Managers are to monitor and review process in May 2020.
Business Continuity	High Assurance	The audit provided assurance to management that	October 2019	**Strengths** There are appropriate	Service level Business Impact Assessments will be completed as part of

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
		essential business processes have been identified, and there are comprehensive Business Continuity plans in place which are regularly monitored and kept up to date.		arrangements in place to reduce the impact of disruption to normal working conditions. There is a corporate Business Continuity plan which covers all directorates within the Authority. The plan is reviewed at least once a year. It is also activated once every 2 years and a lessons learnt report is created. The ICT disaster recovery plan was tested in 2018 to obtain assurance that the ICT networks could be restored following a network outage. **Weaknesses** CIPFA and ISACA recommends that organisations should complete a business impact assessment of all services to ensure there are no points of failure.	the next review period for the Business Continuity Plan. The provisions for volunteering will be reviewed and updated as part of the next Business Continuity Review process.

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				Only some service departments have this. The Authority's Business Continuity plan also does not cover the co-ordination of volunteers.	
Planning	Substantial Assurance	The audit provided assurance to management that planning applications were being processed in line with statutory deadlines. Where applications are extended, refused or withdrawn, justifiable the reasons are documented, and the process for recording and retaining information is followed consistently.	October 2019	**Strengths** All planning applications tested had been validated in an appropriate time scale. Applications that are refused have justifiable reasons. The reasons are documented consistently and the appropriate records retained. **Weaknesses** Evidence of agreeing extensions to statutory deadlines is not stored on the HUB consistently. Requests to withdraw applications are also not	Extensions of time are to be agreed in writing and stored on the HUB. If there is a capacity to record rolling extensions of time in the awaited replacement for M3, this will be used in due course. All withdrawn applications will be documented in writing including the reasons for withdrawal and agreement of the applicant.

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				stored centrally on the HUB or categorised consistently. There is no standardised process in place for recording this information.	
Main Accounting	High Assurance	The objective of the audit was to ensure that; bank reconciliations are performed on a regular basis and authorised, suspense accounts are maintained accurately and cleared regularly, and journals are recorded and authorised correctly. The audit also reviewed the working papers maintained to monitor capital expenditure.	March 2020	**Strengths** Bank reconciliations are carried out weekly by the Finance Assistant and signed off by the Senior Finance Officer. Monthly reconciliations, as a secondary control, are performed and authorised by the Head of Finance. The suspense accounts for Payroll and VAT are cleared monthly, other areas are cleared on an ad hoc basis All suspense account are cleared by year end closedown. Journals reviewed as part of the testing are recorded accurately and appropriately authorised.	

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				Accurate working papers were identified for the 2018-19Capital Accounts Summary.	
Performance Management	High Assurance	The objective of the audit was to ensure that an appropriate performance management framework is in place, and that all KPI's are defined and performance is reviewed appropriately on a regular basis.	March 2020	**Strengths** The performance management framework is in place which displays task performance every 5 years, annually, bi-annually and quarterly. There is also a quarterly report cycle outlining the specific tasks to be performed. A data dictionary is in place for every KPI measured by the authority. Each has an owner, a data owner and a data administrator. KPI's are RAG rated and performance is reviewed on a regular basis. Where information is more easily accessible, performance is reviewed on a more frequent basis. A commentary of process by	There will be a complete data dictionary and methodologies for the 4 outstanding KPIs ahead of quarter 4 KPI recording in April 2020.

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				the KPI owner was found to be included in quarterly performance reports. **Weakness** Some KPIs did not have completed methodologies for their calculation stated in the data dictionary.	
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 Aldern House. This included hard copy personal and special category information as well as electronic items such as laptops and removable media.	March 2020	**Strengths** The quantity of unsecured sensitive and personal documentation found on desks has reduced significantly. Only 1 document was identified which included low level personal data but no special category data. **Weaknesses** A confidential waste bin was accessible as it did not have a securely locked lid. Some members of staff are still not being security conscious and do not	The lock on the confidential waste bin was found to be broken and will be repaired or replaced. The users whose devices were found will be reminded about the policy. A more general reminder will be sent out to all staff about locking cupboards. The temporary storage room containing work wear will be locked and the key will be held by the appropriate team until a permanent location is found.

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				ensure assets are securely stored or locked overnight. A room containing a large quantity of work wear was also accessible by any member of staff.	
Income Generation	Substantial Assurance	The objective of the audit was to ensure that appropriate governance arrangement are in place and that new commercial opportunities to generate sustainable income for the Peak District National Park Authority are being explored.	March 2020	**Strengths** The Foundation has a signed constitution outlining how it will be governed. There is a board of seven trustees. 3 are appointed by the PDNPA and 4 are recruited based on their fundraising experience. Relationships that have a financial value of £5,000 or more, will be reviewed by a Due Diligence Panel. This ensures a fair and consistent vetting of prospective sponsorship or giving proposals. **Weakness** There is no authority wide	A commercial strategy will be developed between the Director of Commercial Development & Outreach and the Chief Finance Officer.

System/Area	Opinion	Area Reviewed	Reported to Authority	Comments	Management Actions Agreed & Follow-Up
				commercial strategy in place. This would help the authority to achieve the overall target level of sustainable gross income.	

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

- 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.

[3] As defined by the relevant audit charter.

2.0   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:

## Quality of audit planning / overall coverage

7% 7%
6%
27%
53%

■ Excellent
■ Good
■ Satisfactory
■ Poor
■ Not answered
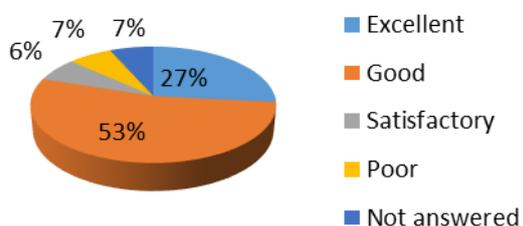
Provision of advice / guidance

7% 0% 7% 13%
73%

■ Excellent
■ Good
■ Satisfactory
■ Poor
■ Not answered
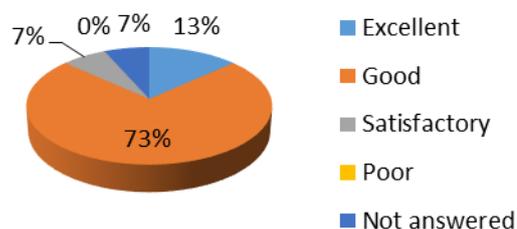
Staff - conduct / professionalism

0%
13% 0%
20%
67%

■ Excellent
■ Good
■ Satisfactory
■ Poor
■ Not answered
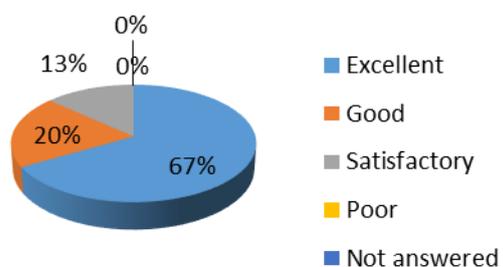
Ability to establish positive rapport with customers

7% 7% 0%
33%
53%

■ Excellent
■ Good
■ Satisfactory
■ Poor
■ Not answered
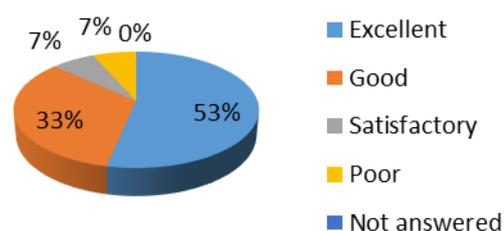
Knowledge of system / service being audited

- Excellent — 20%
- Good — 67%
- Satisfactory — 6%
- Poor — 7%
- Not answered — 0%
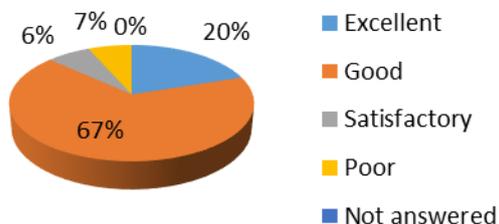
Minimising disruption to the service being audited

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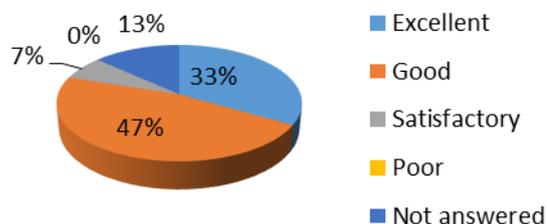
Communicating issues during the audit

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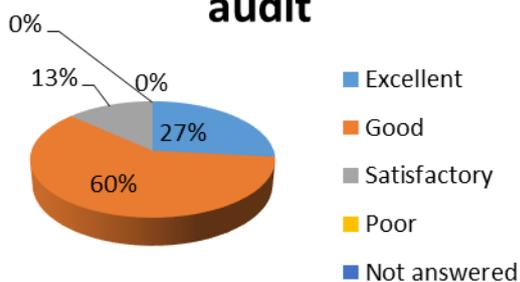
Quality of feedback at end of audit

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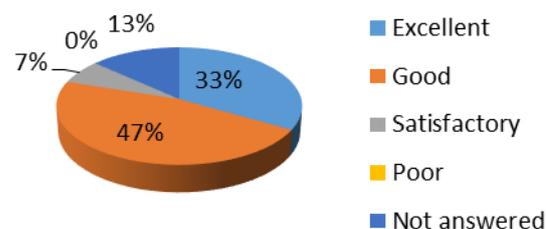
Accuracy / format / length / style of audit report

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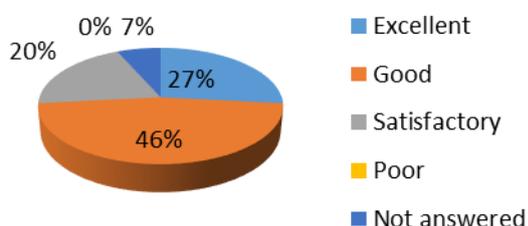
Relevance of audit opinions / conclusions

- Excellent — 20%
- Good — 54%
- Satisfactory — 13%
- Poor — 0%
- Not answered — 13%
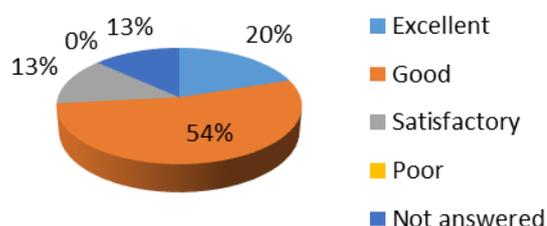
Overall rating for Internal Audit service
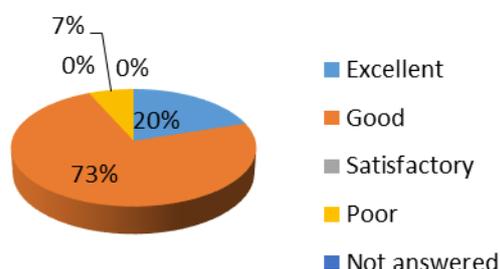
The overall ratings in 2020 were:

	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.

3.0 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	Consultancy services are usually commissioned by the relevant client officer (generally the s151 officer). The

Conformance with Standard	Current Position
included in the audit plan, was approval sought from the audit committee before the engagement was accepted?	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).

4.0   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.

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.

5.0 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:

- 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.

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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.

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.