

REPORT OF THE INTERNAL AUDITOR

SUBJECT: INTERNAL AUDIT REPORT 2018/19

The report is the outcome of work completed against the Block 1 of the 2018/19 operational audit plan previously approved by the Authority's Audit and Corporate Services Review Committee

The internal audit service reviewed the following area:

- Corporate Governance
- Castell Henllys
- Risk Management

From these examinations, taking into account the relative risk of the business areas the internal audit service formed generally very positive conclusions regarding the policies, procedures and operations in place.

.Recommendation: Members are asked to NOTE and COMMENT on this report

*(For further information, please contact Richard Griffiths, extension 4815
richardg@pembrokeshirecoast.org.uk)*



Pembrokeshire Coast National Park Authority Internal Audit Report

Block 1 - July 2018



1. Introduction
2. Executive summary
3. Audit highlights
4. A (i) – Corporate Governance
5. A (ii) – Castell Henllys
6. A (iii) – Risk Management
7. Annual Plan Progress Summary
8. Performance indicators for 2018
9. Grading of Opinions and Recommendations

Audit visit: June 2018

Audit lead: David Long

Gateway Assure staff deployed: Robin Pritchard, David Long

Contact details: E. robin.pritchard@gatewayassure.com M: 07792 296830

This report summarises the outcome of work completed to date against the operational audit plan for 2018/19 as approved by Pembrokeshire Coast National Park and the Audit and Corporate Services Review Committee ; it incorporates cumulative data in support of internal audit performance. This provides a basis for our work during the year which is planned to inform our annual opinion.

The sequence and timing of individual reviews has been discussed and agreed with management to ensure the completion of all audits within the agreed Internal Audit Strategy 2018/19 in a timely manner. The scope for each review has been agreed with nominated managers and is intended to focus on the key risks to which that area of the organisation's activity is exposed and the associated controls which we would expect to be in place to ensure that risk is managed within the risk appetite approved by the Board. Our approach is to document and evaluate the adequacy of controls operating within the system. The key controls operated by management have been assessed against the controls we would expect to find in place if best practice in relation to the effective management of risk, the delivery of good governance and the attainment of management objectives is to be achieved. Where applicable, selected and targeted testing has been used to support the findings and conclusions reached.

The Executive summary which follows provides an assurance opinion which arises from the outcomes of the audits undertaken in this block of work and which have been discussed with senior management. The highlights emerging from each area subject to review are shown in the more detailed commentary that is then provided.

A summary of progress against the years planned operational activity is enclosed along with details of opinions and recommendations; this will provide assurance regarding delivery of the plan against the timetable established by the Audit and Corporate Services Review Committee.

We have performed our work in accordance with the principles of the Institute of Internal Auditors (IIA) International Professional Practice Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS) in so far as they are applicable to an assignment of this nature and you our client.

We therefore report by exception and only highlight those matters of significance that we believe merit acknowledgement in terms of good practice or undermine the system's control environment and which require attention by management.

If any matters require clarification prior to the meeting of the Audit and Corporate Services Review Committee please do not hesitate to contact the Engagement Director, whose contact details appear on the contents page of this report.

The results of our visit to Pembrokeshire Coast National Park Authority are summarised in this section of the report and are considered in relation to each area reviewed.

The extent of comment in relation to each audit area is restricted deliberately so as to highlight the significant issues that we believe need to be drawn to the attention of the Audit and Corporate Services Review Committee and management. We provide an opinion in relation to each audit area that relates to the level of assurance that can be provided as evidenced within each review; and takes account of the issues identified and the recommendations made. The opinion is expressed in terms of the control framework for the area under review, as currently laid down and operated, and takes account of whether the risks material to the achievement of the organisation’s objectives for this area are adequately managed and controlled. The opinion is therefore expressed as substantial, adequate or limited.

These are supported by a more detailed analysis of each review that is contained as an audit highlights summary which follows this executive summary.

| Audit Area | Opinion | Recommendations | | | | |
|----------------------|-------------|-----------------|---|----|-------|--------|
| | | F | S | MA | Total | Agreed |
| Corporate Governance | Substantial | 0 | 0 | 2 | 2 | 2 |
| Castell Henllys | Adequate | 0 | 0 | 3 | 3 | 3 |
| Risk Management | Adequate | 0 | 2 | 0 | 2 | 2 |

- Fundamental (F)** Area subject to fundamental risk where immediate action should be taken to implement an action plan.
- Significant (S)** Attention to be given to resolving the position as the organisation may be subject to significant risks.
- Merits Attention (MA)** Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness.

As part of our service to you as our client we will follow-up on those recommendations made during the periods which we are on-site and report assurance or otherwise regarding completion of management actions at the next Audit and Corporate Services Review Committee meeting. Where follow-up is required to be undertaken within a more immediate timescale we will be pleased to arrange for this to be undertaken, whilst recognising that there may be implications on time allocation within the operational plan.

Executive summary – Corporate Governance

1.1 The Authority produces an annual Governance Statement which is included within the financial statements of the National Park Authority. Procedures identified during the internal audit demonstrate that the Authority retains a high standard of corporate governance.

1.2 The Authority continues to maintain a defined structure of Committees, of which only two have devolved decision making powers, to review and monitor different areas of the Authority's activity. This structure of committees has been in place for a number of years and has consistently demonstrated maintenance of the high governance expectations. Committees have in place a Terms of reference setting out the responsibilities and power of each, including the quorum required for the committee to hold a valid sitting.

1.3 Members are expected to sign up to the Authority's code of conduct which covers the independence and integrity of members through recording of conflicts of interest and gifts and hospitality at each meeting.

1.4 The appointment of members to the Authority consists of appointments made by the Welsh Government and the Local Council. As such, the Authority do not have control of the skills that new members have to offer the Authority as it is unable to request members with required skill sets as a means of specifying desirable skill sets and as a result mitigating perceived areas of weak expertise. We have suggested that a skills audit is undertaken of current members and as new members join the Authority to ensure both that their skills are put to best use and to inform training needs, therefore supporting members in areas relevant to their responsibilities regarding the National Park. Training may take the form of matters for inclusion in induction or wider corporate needs aligned to achievement of the Authority's Corporate Plan.

1.5 Individual and Committee appraisals were carried out in 2016/17, and annual appraisals of individuals occur on a regular basis.

1.6 The creation of the new Funding Trust regarding which an application to the Charity's Commission is shortly to be made, will create a separate legal entity with which the Authority will need to appropriately demonstrate 'distance' under the operating Agreement whilst sharing common interests.

1.7 We have made two recommendations where we feel additional attention is required, these relate to:

- The governance arrangements around the new Trust being set up by the Authority, and
- The completion of a skills audit for members to identify existing skills and identify future training needs.

Key control areas subject to review

1. Authority strategic plan and monitoring of the same
2. Formal structure in place with Committees and delegated responsibilities
3. Committee governance
4. Formal administration of Committees and Authority
5. Skills audit and GAP analysis
6. Succession planning and individual appraisals
7. Authority and Committee appraisals.

Executive summary – Departmental Review - Castell Henllys

1.1 Castell Henllys is a remote iron age fort in the north of the Pembrokeshire Coast National Park. The attraction provides the Park with a source of Education for Schools and a setting for environmental activities.

1.2 There is no dedicated business plan for future operation of the facility, there is a team activity plan which is renewed each year, after consideration of the feedback obtained from all sources; visitor book, trip advisor and verbal feedback given to staff during visits; feedback is generally very positive. Objectives are consistent with that for the National Park as a whole, however it is suggested that a site specific plan setting formal direction for the Castell would be beneficial particularly as the recent resignation of the current manager offers an opportunity to refresh ideas, and against which performance can be monitored. The plan would benefit from inclusion of broad objectives, including visitor numbers and planned activities, reflecting tourism and educational aspects, as well as including financial aspects. Consideration could be given to wider working with partners directly in terms of promotion or through visitor membership schemes.

1.3 Any new plan should take account of the operation support needs required from the corporate team to ensure efficient and effective performance. We have discussed a number of current operational issues that appear to be causing concern with management, but which are not worthy of report.

1.4 Risk analysis on the site is considered on an ongoing basis. The team have regular team meetings and have in place a team safety plan which is constantly under review to ensure it remains current and constant. Site security was considered appropriate with alarms, CCTV and two safes on site to secure valuable assets. Insurance is in place for loss of assets, and management should regularly confirm that the level of cover is sufficient for the amounts held, especially in light of the potential for greater cash sums to be held due to access to banking facilities being restricted.

1.5 The remoteness of the Castell Henllys site continues to generate concern regarding secure and timely arrangements for the banking of cash and it would therefore be appropriate for the new manager to consider whether there are any alternatives to the current arrangements.

1.6 We have made three recommendations where we feel additional attention is required, these relate to:

- The introduction of a specific business plan, highlighting and developing the unique nature of the site,
- Exploration of the potential to engage with other partners regarding the marketing and use of the site, and
- Consideration to be given for alternative cash collection arrangements.

Key control areas subject to review

1. Business Plan established
2. Services and activities offered
3. Budgets
4. Key risk facing Castell Henllys
5. Management Information
6. Visitor Complaints and Complements
7. Pricing strategy of goods and services
8. Wastage of perishable goods
9. Re Order levels of stock
10. Variable Hour staff
11. Cash Handling procedures
12. Collection of entry fees and sales cash
13. Banking arrangements
14. Security of site

Executive summary – Risk Management

1.1 The Authority has a risk management policy in place which was last reviewed in June 2016. The policy contains details of responsibilities, processes and reporting expectations which are operational throughout the organisation; albeit this needs updating at the next review to reflect current practice in a number of areas.

1.2 The policy does however not attempt to define risk appetite and is limited in so far as it uses a 3x3 matrix regarding the classification of risk impact and likelihood.; the definitions of which are limited. It is suggested that moving to a 4x4 matrix and providing broader definition of what the Authority regards as examples of risk impact at each level would better enable embedding of practice as well as effectively define risk appetite.

1.3 The Authority maintains a risk register in spreadsheet format which is presented to each Leadership Team meeting, revised as appropriate and then reported to each meeting of the Audit and Corporate Services Review Committee and the Operational Review Committee. The register however does not show an analysis of inherent risk (that which the Authority is exposed to as a consequence of its business objectives) which is good practice in order to ensure that a corporate understand of the critical business risks is understood, along with those measures (controls and assurances) put in place to reduce the risk to the current stated level. It would be good practice to ensure at least on an annual basis that such an exercise takes place.

1.4 The register does contain an analysis of current risks which will provide assurance to all stakeholders although the further mitigating actions to reduce current to target risk are not consistently documented along with responsibilities and dates by which the action will be achieved.

1.5 The register does though provide a comprehensive analysis of the current risks being faced by the Authority and includes 43 risks spanning the activity of the Authority and of which 3 are graded as red.

1.6 We anticipate that Implementation of the above practices would allow a move to exception reporting on risk and focus on those matters which are above defined risk appetite.

1.7 We have made four recommendations where we feel additional attention is required or would be beneficial to enhance current risk management practices, these relate to:

- The use of inherent risk as the basis for initial grading of risks faced by the Authority as a consequence of its business objectives,
- Enhancing the definitions of risk impact to provide a basis for establishing risk appetite and focused reporting, and
- Ensuring alignment between current risk and target risk through transparent documentation of planned mitigating actions.

Key control areas subject to review

1. Risk Management Policy
2. Monitoring of risk in a live environment
3. Effective risk mitigation
4. Embedding of risk management
5. Reporting and communication

| | | | |
|---|---|--------------------------------|------|
| Audit area | Corporate Governance | | |
| Management Objective: | An adequate framework of controls is in place with regard to the governance of the Authority, and the way it discharges its responsibilities, committees, delegated authority, planning and accountability within the expectations of the Welsh Government. | | |
| Responsible Officer: | Tegryn Jones – Chief Executive | | |
| Key risks for consideration: | | | |
| Governance processes do not reflect good practice , failing to support the Organisation in the delivery of its strategic aims and leaving the Authority open to criticism by stakeholders . | | | |
| Overall opinion: | Substantial | Adequacy of control framework: | Good |
| | | Application of control: | Good |

| Main Recommendations | Priority | Management Response | Implementation Plan |
|---|----------|--|---|
| <p>1. Funding Trust</p> <p>The Authority must clearly identify and evidence operational arrangements with the new body and ensure effective administration of any conflicts of interest that emerge with those involved between the National Park and the New Trust.</p> | MA | <p>Memorandum of Understanding agreed between the Authority and Trust.</p> <p>Members who are also Trustees of the Trust and officers who support the Trust have a clear Code of Conduct. No further action required currently however situation to be reviewed in one year to ensure systems are working effectively.</p> | <p>Responsibility: Chief Executive</p> <p>Target date: 30 September 2019</p> |
| <p>2. Member Skill's Audit</p> <p>The Authority should identify the required skill set of members of the Authority, undertake a skills audit of the current Authority members to identify how existing skills are best utilised and where additional training would be beneficial.</p> | MA | <p>Self-Assessment Form distributed to Members in August to inform new training and development plan.</p> <p>Skills Assessment undertaken by end of 2018 to inform recruitment of new Members by Welsh Government.</p> | <p>Responsibility: Administration and Democratic Services Managers</p> <p>Target date: 31 December 2019</p> |

| | | | |
|--|---|--------------------------------|-------------|
| Audit area | Department Review - Castell Henllys | | |
| Management Objective: | The delivery of operational activities are sufficient to assure attainment of PCNPA objectives, budgets, and the delivery of effective services for the local community, business and visitors. | | |
| Responsible Officer: | Jenn Jones – Visitor Service Manager – North Pembrokeshire | | |
| Key risks for consideration: | | | |
| <ol style="list-style-type: none"> 1. Failure to suitably establish, communicate, devolve and monitor the management of activity impacts upon the successful use of the Centre in promoting the National Park and consequently the Authority's income generation expectation for Castell Henllys. 1. Failure to generate required margins on sales 2. Failure to collect all incomes due. | | | |
| Overall opinion: | Substantial | Adequacy of control framework: | Good |
| | | Application of control: | Appropriate |

| Main Recommendations | Priority | Management Response | Implementation Plan |
|---|----------|---|--|
| <p>1. Castell Henllys Business Plan</p> <p>We recommend that the Authority prepare a specific business plan for the future use and development of Castell Henllys which acknowledges the relevance of the site for tourism and educational purposes.</p> | MA | <p>Propose that we create a new 'tourism service plan' to over key aspects of our work (capturing key objectives for my team as well as the work of others e.g. Direction and Comms) – this will help in capturing our collective aspirations for tourism delivery as an organisation which, in turn, will feed into the corporate plan/performance management/ffynnon, framework etc as well as the work of the Destination Pembrokeshire Partnership (DPP). We create a new business plan template to manage the organisation's aspirations for each of our key visitor attractions (e.g. Carew Castle, Castell Henllys and Oriel y Parc) – the three individual business plans will form a 'cornerstone' of the above 'tourism service plan'</p> | <p>Responsibility: Director of Countryside, Community and Visitor Services</p> <p>Target date: 30 April 2019</p> <p style="text-align: center;">Page 21</p> |

| Main Recommendations | Priority | Management Response | Implementation Plan |
|--|----------|--|--|
| <p>2. Engagement with partner organisations Consideration be given to the potential for marketing and use of the site through engagement with like minded partners.</p> | MA | <p>Somewhat unsure what is implied by this recommendation. However, the Authority is currently undertaking a review of its approach to interpretation across the whole National Park. The outcome of this work will be a dedicated PCNPA Interpretation Plan for both North Pembrokeshire and South Pembrokeshire, The plan for North Pembrokeshire will highlight where there are shared interests between PCNPA any key bodies and local communities that can be maximised to enhance both the shared marketing and use of the Castell Henllys site by external partner agencies and community groups.</p> | <p>Responsibility: Visitor Services Manager (North Pembrokeshire) Target date: 30 Sept 2019</p> |
| <p>3. Options for cash collection The Authority should consider whether alternative secure and efficient cash collection procedures are available which would also allow staff to remain on site during opening hours.</p> | MA | <p>It is suggested that the Finance Manager, in conjunction with the Commercial Group, review our present banking arrangements for all of the Authority's visitor sites. An initial response is required to address the specific issues highlighted by the audit report and, moving forward, there may be opportunities for further service improvements by moving to an online banking system (to support the organisation's 'paperless' aspirations).</p> | <p>Responsibility: Finance Manager Target date: 30 April 2019</p> |

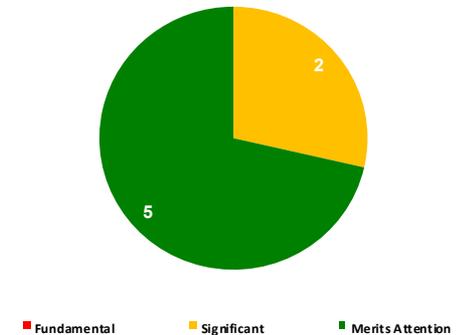
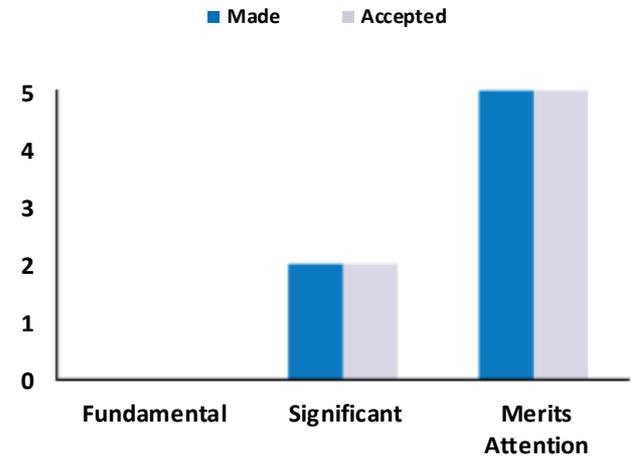
| | | | |
|--|--|--------------------------------|-------------|
| Audit area | Risk Management | | |
| Management Objective: | The Risk Management Framework is designed to support the achievement of corporate objectives and is appropriately controlled through establishment of a risk strategy, Risk Register, training and embedment within strategic and operational activity throughout the Authority in line with the risk appetite of the Board. | | |
| Responsible Officer: | Richard Griffiths – Finance Manager | | |
| Key risks for consideration | | | |
| <ol style="list-style-type: none"> 1. The Authority does not have in place an appropriate risk management policy 2. The Authority does not have in place an appropriate Risk Register covering all aspects of the National Park Authority 3. Training on risk is not completed on a regular basis | | | |
| Overall opinion: | Adequate | Adequacy of control framework: | Appropriate |
| | | Application of control: | Appropriate |

| Main Recommendations | Priority | Management Response | Implementation Plan |
|--|----------|--|---|
| 1. Risk Management Policy The Authority should define its risk appetite through enhancing its definition of risk impact to provide examples of what the Members and Leadership team consider reflects each grade of impact. Consideration should be given to moving to a 4x4 matrix. | S | While we find the Authority scoring of the risks to be reasonable we will give consideration to this following consideration of the approach at the next meeting of the Audit and Corporate Services Review Committee. | Responsibility: Finance Manager Target date: 31 March 2019 |
| 2. Inherent risk The Authority should recognise risk at an inherent level and align this analysis with its business plan to ensure that all stakeholders recognise the risks which are critical to the Authority's success. | S | We will investigate the practicality of incorporating this suggestion into departmental business plans | Responsibility: Finance Manager Target date: 31 March 2019 |

Performance indicators 2018/19

| | Annual Plan | Actual |
|----------------|---------------|--------|
| No. Audit Days | 25 | 13 |
| Draft report | 10 | 2 days |
| Final report | 5 | 1 day |
| Audit Fee | Within budget | |

| Resources | | |
|---------------|-----|----------------|
| | % | Qualifications |
| Director | 33% | CPFA/IRM |
| Manager | | |
| Senior | 67% | FCCA |
| IT Specialist | - | CISA |



Operational plan summary 2018/19

Audit and Corporate Services Review Committee meeting – March 2018

Draft Internal Audit Strategy 2018– 2020

| Committee meeting – 21 November 2018 | | | Audit visit undertaken 15 June 2018 | | Recommendations made | | | | |
|--------------------------------------|-----------|-------------|-------------------------------------|----------|----------------------|----------|----------|----------|----------|
| Block 1 Audits | Plan Days | Actual days | Client Contact | Progress | | | | Total | Accepted |
| 1. Corporate Governance | 3 | 2.5 | Tegryn Jones | Final | 0 | 0 | 2 | 2 | 2 |
| 2. Castell Henllys | 4 | 4.5 | Jenn Jones | Final | 0 | 0 | 3 | 3 | 3 |
| 3. Risk Management | 3 | 3.0 | Richard Griffiths | Final | 0 | 2 | - | 2 | 2 |
| Follow up | 1 | 1.0 | | | | | | | |
| Management | 2 | 2.0 | | | | | | | |
| Total | 13 | 13 | | | 0 | 2 | 5 | 7 | 7 |

| Committee meeting – 13 February 2018 | | | Audit visit scheduled – 15 October 2018 | | Recommendations made | | | | |
|--|-----------|-------------|---|--------------|----------------------|--|--|-------|----------|
| Block 2 Audits | Plan Days | Actual days | Client Contact | Progress | | | | Total | Accepted |
| 4. Key Financials – Exchequer software | 3 | | Richard Griffiths | | | | | | |
| 5. Health and Safety | 2 | | | | | | | | |
| 6. Fleet Management | 4 | | | | | | | | |
| Management | 3 | | | | | | | | |
| Total | 12 | | | Total | | | | | |

TOTAL AUDIT DAYS 2018/19

25

12.5

KEY FOR RECOMMENDATIONS (IN RELATION TO THE AREA REVIEWED)

| | |
|------------------------------|--|
| Fundamental (F) | - The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan. |
| Significant (S) | - Attention to be given to resolving the position as the organisation may be subject to significant risks. |
| Merits Attention (MA) | - Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness. |

ADEQUACY & APPLICATION OF CONTROL

| OVERALL OPINION (ASSURANCE) | FRAMEWORK OF CONTROL | APPLICATION OF CONTROL | EXPLANATION | TYPICAL INDICATORS |
|-----------------------------------|----------------------|------------------------|--|--|
| Substantial (Positive opinion) | Good | Good | The control framework is robust, well documented and consistently applied therefore managing the business critical risks to which the system is subject. | There are no fundamental or significant recommendations attributable to either the Framework or Application of Control. |
| Adequate (Positive opinion) | Good | Appropriate | As above however the audit identified areas of non-compliance which detract from the overall assurance which can be provided and expose areas of risk. | There are no fundamental recommendations surrounding the Framework of Control; coupled with no fundamental and no more than two significant recommendations attributable to the Application of those controls. |
| | Appropriate | Good | The control framework was generally considered sound but with areas of improvement identified to further manage the significant risk exposure; controls were consistently applied. | There are no fundamental recommendations attributable to the Framework of Control. |
| | Appropriate | Appropriate | As above however the audit identified areas of non-compliance which expose the organisation to increased levels of risk. | There are no fundamental recommendations attributable to the Framework and Application of Control. |
| Limited (Negative opinion) | Good / Appropriate | Weak | As above however the extent of non-compliance identified prevents the Framework of Control from achieving its objectives and suitably managing the risks to which the organisation is exposed. | There are more than two significant recommendations attributable to the Application of Controls. |
| | Weak | Good / Appropriate | The control framework despite being suitably applied is insufficient to manage the risks identified. | There are more than two significant recommendations attributable to the Framework of Controls. |
| | Weak | Weak | Both the Framework of Control and its Application are poorly implemented and therefore fail to mitigate the business critical risks to which the organisation is exposed. | There are fundamental recommendation(s) attributable to either or both the Framework and Application of Controls which if not resolved are likely to have an impact on the organisations sustainability. |