Internal Audit Annual Report and Opinion 2013/14
Report by Head of Internal Audit

Summary: This report has been developed to satisfy the mandatory requirements of the new Public Sector Internal Audit Standards (PSIAS), effective from 1 April 2013, and specifically Standard 2450, concerning the provision of an annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, which, in turn, should be used to inform the Authority's Annual Governance Statement.

The report also seeks to confirm compliance with the Accounts and Audit (England) Regulations 2011, whereby the Authority is required to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

To demonstrate that this Authority has met its statutory requirements, as recognised above, the Internal Audit Consortium Manager has produced this Annual Report and Opinion, drawing upon the outcomes of Internal Audit work performed over the course of the year, to formulate an opinion concerning the overall internal control environment which has been operating at the Authority throughout 2013/14.

The report also reviews the effectiveness of the Internal Audit Service, in particular; the degree of conformance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

Recommendation:

That the Committee is required to:

(i)   receive and consider the contents of the Annual Report and Opinion of the Internal Audit Consortium Manager;
(ii)   note that an **adequate** audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2014;
(iii)   note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration, when developing and reviewing the Authority's Annual Governance Statement for 2013/14;
(iv)   note the conclusions of the Review of the Effectiveness of Internal Audit.

1   Introduction / Background

1.1   Public Sector Internal Audit Standards, which came into force from 1 April 2013, have effectively replaced CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom (2006). The new Standards are very similar to the old Code of Practice in terms of year end Internal Audit reporting requirements, in so far as:

An annual opinion should be generated which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- A summary of the work that supports the opinion should be submitted
- Reliance placed on other assurance providers should be recognised
- Any qualifications to that opinion, together with the reason for qualification must be provided
- There should be disclosure of any impairments or restriction to the scope of the opinion
- There should be a comparison of actual audit work undertaken with planned work
- The performance of internal audit against its performance measures and targets should be summarised
- Any other issues considered relevant to the Annual Governance Statement should be recorded

1.2   This report now also contains conclusions on the Review of the Effectiveness of Internal Audit, which includes:

- The degree of conformance with the PSIAS and the results of any quality assurance and improvement programme
- The outcomes of the performance indicators
- The degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit

This was previously reported to the Committee as a separate report; however the view has been taken that these can be considered as one report as they are inextricably linked. The opportunity has been taken to do this as part of the launch of new report templates across the six authorities that are part of the Consortium, with the view to ensuring consistency and streamlining the audit reporting process, whilst still ensuring that best practice is met.

1.3   The Annual Report and Opinion 2013/14 and the Review of the Effectiveness of Internal Audit are shown in the report attached.

1.4   On the basis of Internal Audit work performed during 2013/14, the Internal Audit Consortium Manager is able to give an **adequate** opinion on the framework of governance, risk management and control at the Broads Authority.

1.5   The outcomes of the Effectiveness Review confirm that Internal Audit:

- is substantially compliant with the Public Sector Internal Audit Standards
- is continually monitoring performance and looking for ways to improve
- is substantially complaint with CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.

These findings therefore indicate that reliance can be placed on the opinions expressed by the Internal Audit Consortium Manager, which can then be used to inform the Authority's Annual Governance Statement.

Background Papers:	None
Author:	Emma Hodds, Internal Audit Consortium Manager
Date of Report:	20 June 2014
Broads Plan Objectives:	None
Appendices:	APPENDIX A - Annual Report and Opinion 2013/14

NORFOLK INTERNAL AUDIT CONSORTIUM

BROADS AUTHORITY

ANNUAL REPORT AND OPINION 2013/14

RESPONSIBLE OFFICER

EMMA HODDS – INTERNAL AUDIT CONSORTIUM MANAGER (IACM)

CONTENTS

1. INTRODUCTION

1.1 The Authority is required by the Accounts and Audit Regulations 2011 to maintain an adequate and effective system of internal audit of its accounting records and internal control systems in accordance with proper internal audit practices. Those proper practices are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

1.2 Those standards require the Chief Audit Executive (known in this context as the IACM) to provide a written report to those charged with governance (known in this context as the Financial Scrutiny and Audit Committee) to support the Annual Governance Statement (AGS). This report must set out:-

- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control during 2013/14, together with reasons if the opinion is unfavourable;

- A summary of the internal audit work carried from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;

- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);

- The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation's Annual Governance Statement, but there are also a number of other important sources to which the Financial Scrutiny and Audit Committee and statutory officers of the Authority should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 4**.

2. ANNUAL OPINION OF THE IACM

2.1 Roles and responsibilities

- The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

- The AGS is an annual statement by that records and publishes the Authority's governance arrangements.

- An annual opinion is required on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

- This is achieved through the delivery of the risk based Annual Audit Plan discussed and approved with Senior Management Team and key stakeholders and then approved by the

Financial Scrutiny and Audit Committee at its meeting on 12 February 2013. Any justifiable amendments that are requested during the year are discussed and agreed with senior management, there have been no changes to the approved plan for 2013/14. This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

- The Financial Scrutiny and Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Authority and any assurances received throughout the year from other review bodies such as the external auditor.

2.2   The opinion itself

- The overall opinion is that the framework of governance, risk management and control at the Broads Authority is deemed to be **adequate**, representing a stable control environment. The Authority has also received 2 good assurance levels in respect of Corporate Governance & Risk Management and Key Controls & Assurance.

- In providing the opinion the Authority's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.

- The audit work was lead and reviewed by the previous Internal Audit Consortium Manager during the period 1 April 2013 to 28 February 2014; and further review has been undertaken by the Deputy Chief Executive at South Norfolk Council, with responsibility for Internal Audit

- The opinion has been discussed with the section 17 officer and the Head of Finance prior to publication.

3.   AUDIT WORK UNDERTAKEN DURING THE YEAR

3.1   **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. Detailed findings, conclusions and agreed management actions can be provided upon request. In addition **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2   The 2013/14 Annual Audit Plan included 5 audits, totalling 35 days. As Committee are aware the audit of Corporate Governance and Risk Management was a retrospective conclusion for 2012/13 and was included in the 2012/13 annual report and opinion and has previously been reported. The conclusion of the remaining 4 audits is summarised thus:

Procurement (BA/14/02)

The audit review was requested by management and an adequate assurance opinion was awarded with 4 medium and 2 low priority recommendation raised. The medium priority recommendations related to; ensuring that the Contract Register is complete, undertaking purchase ledger analysis, formal reporting of instances where procurement rules are not followed and four payment arrangements whereby further investigation work is required.

Key Controls and Assurance Work (BA/14/03)

This audit covers all the fundamental financial system. Upon conclusion a good opinion was awarded indicating an improvement in controls from the previous year. Thus indicating there is a sound system of internal control, which is designed to meet objectives.

Network Security (BA/14/05)

This IT audit concluded in a limited assurance opinion with 12 (three high, five medium and four low) recommendations being raised. The high priority recommendations relate to; a

review of the Domain accounts policy settings to ensure they adhere to leading practice, a review of accounts where passwords are not changed regularly and a review of accounts that never expire. All recommendations were agreed with management and work is in progress to address the issues.

Appendix 3 to this report provides the Executive Summaries relating to the above 3 reports.

Computer Audit Needs Assessment (BA/14/04)

This review provides a direction of audit effort towards areas of risk within the ICT environment that are of specific importance to the Authority and assesses the risk areas in terms of a number of audit areas so that audit types are distinguished by different audit risk objectives.

The approach involved discussion and review of the current position, a review of the current corporate risk register, and a visit to the Authority's primary site, Yare House. Information was gathered by undertaking an initial interview with the Head of ICT and Collector of Tolls. These discussions, along with the Authority's corporate risk register have formed the basis for this needs assessment.

Due to the time allocation for Computer Audit, the key areas have been identified within the needs assessment and a shortlist of relevant audits for the Authority to agree timings has been provided. As only a small part of the ICT Infrastructure can be covered, it is expected that the Authority will seek internal management assurance that key risk areas are being adequately managed.

Based on the risk profile of ICT auditable areas, the following have been highlighted as potential areas for Audit:

1)   Network Security – 7 days – to form part of the 13/14 ICT Audit Plan **(complete)**

        Network Security (Domain Controller Settings).

2)   End User Controls – 7 days – to form part of the 14/15 ICT Audit Plan

        PC End User controls;

        Laptop Security;

        Mobile Devices (Phones/USB, etc); and

        End User Device Asset Management.

3)   Audits to be held in reserve (7 days per audit)

        Virus Protection/Spyware, Data Backup and Data Centre controls; or

        E-mail & Exchange Audit; or

        Document Management.

The Network Security has already been completed (see above) and the End User Controls audit is planned for 2014/15. A full copy of the Computer Audit Needs Assessment can be made available to the Committee.

3.3   The 2014/15 Annual Audit Plan, which has been approved by this Committee also included a review of Corporate Governance and Risk Management and looked at the arrangements that were in place for 2013/14 and is considered when writing this report. The Executive Summary is attached at **Appendix 3**.

Corporate Governance and Risk Management (BA/15/01)

On conclusion of the review a good assurance was again awarded, which indicates that good practice continues to be followed by the Authority and ensures that the Authority meets its objectives within this area.

3.4   Internal audit work is divided into 4 broad categories;

- Annual opinion audits;

- Fundamental financial systems that underpin the Authority's financial processing and reporting;

- Other systems identified as worthy of review by the risk assessment processes within internal audit;

- Significant computer systems which provide the capability to administer and control the Authority's main activities.

3.5   In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that 9 recommendations were closed during 2013/14, however a further 16 are still reported as outstanding, 2 of which are high priority and relate to the audit of Network Security which are work in progress. The Key Controls and Assurance Work audit reviewed the position and responses from management indicate that work is in progress to implement the remaining recommendations. In addition this Committee receives regular reports from the Head of Finance in relation to the implementation of Internal Audit recommendations and thus keeps a watching brief on progress over the financial year.

3.6   Internal Audit work has not identified any weaknesses that are significant enough for disclosure within the AGS.

4.   THIRD PARTY ASSURANCES

4.1   In arriving at the overall opinion reliance has not been placed on any third party assurances

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5.   ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1   Degree of compliance with Public Sector Internal Audit Standards (PSIAS)

5.1.1   A checklist for conformance with the PSIAS and the Local Government Application Note has been completed for 2013/14. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

5.12   The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme (which includes both internal and external assessment).

5.1.3   The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

5.1.4   On completion of the checklist full conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards. In relation to the Attribute Standards it is recognised that in order to achieve full conformance an external assessment is required. This must be done within 5 years if the PSIAS coming into force, i.e. by 31 March 2018. Initial discussions have been held with other Local Authorities in Norfolk, and discussions will continue. A report will be brought back to the Audit Committee to confirm the options available for this review once more detail is known.

5.1.5 In relation to a Quality Assurance and Improvement Programme, internal assessments are undertaken on a regular basis and performance regularly assessed in relation to the Contractor. The external assessment will be completed as referred to in paragraph 5.1.4 above.

5.1.6 The detailed checklist has been forwarded to the Head of Finance and the section 17 officer for independent scrutiny and verification.

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Audit Committee.

5.2.2 Management have accepted all recommendations on conclusion of audit reviews, and 3 high priority recommendations were raised within the 2013/14 financial year, all of which have been accepted by management. At the end of the financial year one of these has been successfully implemented and the remaining 2 are work in progress.

5.2.3 Audit briefs should be issued to key clients at least 10 days before the fieldwork is due to start to ensure that they are well informed of the requirements of the audit. Performance in this area has met target again this year, with audit briefs issued on average 28 days before the start of fieldwork.

5.2.4 Once audits were underway all of these were completed on time or in advance of the agreed date.

5.2.5 Performance in issuing draft reports remained on target for 3 of the audits; however one draft report was delayed. This late progression was as a result of the internal review process and the clearance of review points, and also as a result of the loss of key Mazars staff at a key point in the year. Other reviewing managers were brought into attempt to mitigate the risk, but this has still had an impact on performance.

5.2.6 Performance in progressing a draft report to final report remains on target, with all reports being finalised well within the 15 days. This indicates prompt management response to audit reports.

5.2.7 Finally post audit feedback is requested on conclusion of each audit where an opinion has been awarded. The average score for feedback this year remains consistent with an average of adequate awarded. The response rate was also encouraging with 3 out 4 requested responses being received. However response rate across the Consortium is poor and work has been undertaken by the Audit Management Team is review and update the feedback form to make this more efficient and increase the likelihood of these being completed. The new feedback form will be used for 2014/15 audits, and going forwards.

5.2.2 Actual performance against these targets is outlined within the table below and overleaf:

Indicator	Target	2012/13	2013/14
% of audit recommendations accepted	90%	100%	100%
% of high priority recommendations implemented	100%	Not applicable as no high priority recommendations raised in year.	100%
Days between issue of audit brief and	More than 10 days (average)	16 days	29 days

fieldwork commencing	100%	100%	100%
Number of days between expected fieldwork completion and actual	0 days 100%	0 days 100%	0 days 100%
Number of days between completion of audit fieldwork and draft report issue	10 days or less (average) 100%	9 days 50%	15.5 days 50%
Number of days between issue of draft and final reports	15 days or less (average) 100%	3 days 100%	5 days 100%
Number of days between completion of fieldwork and final report issue	25 days or less (average) 100%	12 days 100%	17 days 80%
Average score given to audit feedback	Adequate (4 out of 6)	4.88 Adequate	4.79 Adequate

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

5.3.2 On review of the 5 Principles and in benchmarking against these it can be concluded that there is substantial compliance with the aspects associated with each Principle.

5.3.3 In relation to ensuring there are sufficient resources available to carry out satisfactory level of Internal Audit, there is resilience provided by the audit contractor to ensure that the necessary resource is available. However the Audit Charter does not address the procedures to be followed in the event that the IACM considers the resources available are insufficient to perform the role effectively. This is already mitigated through the discussions held with the Head of Finance and the section 17 officer and this Committee (if required) regarding the resources required to ensure delivery of internal audit activity. However this will be formalised through the next update of the Audit Charter.

5.3.5 The detailed checklist has been forwarded to the Head of Finance and the section 17 officer for independent scrutiny and verification.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2013/14

Description of the audit	Assurance level awarded
Annual opinion audits	
Corporate Governance and Risk Management	Good
Fundamental financial systems	
Key Controls and Assurance Work	Good
Other systems	
Procurement	Adequate
Computer systems	
Network Security	Limited

Assurance level definitions		Number
GOOD	There is a sound system of internal control designed to achieve the client's objectives.	2
	The control processes tested are being consistently applied.	
ADEQUATE	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk.	1
	There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.	
LIMITED	Weaknesses in the system of internal controls are such as to put the client's objectives at risk.	1
	The level of non-compliance puts the client's objectives at risk	
UNSATISFACTORY	Control processes are generally weak leaving the processes/systems open to significant error or abuse.	0
	Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse	

Note: Although 5 reports were undertaken against which the Annual Report and Opinion is based only 4 of these concluded in an assurance being awarded, the Computer Audit Needs Assessment does not have this.

APPENDIX 2 ASSURANCE CHART

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Annual Opinion Audits							
Corporate Governance	Substantial/Adequate						
Review of Annual Governance Statement	Substantial/Adequate (reviewed Q1 of 2009/10)						
Corporate Governance and Risk Management	Limited	Adequate Review relates to 2008/09	Adequate Review relates to 2009/10	Good Review relates to 2010/11	Good Review relates to 2011/12	Good Review relates to 2012/13	Good Review work relates to 2013/14
Risk Management							
Fundamental Financial Systems							
Toll Income	Adequate	Absorbed into Key Controls and Assurance work					
Asset Management	Adequate						
Payroll/Human Resources	Adequate						
Key Controls and Assurance Work	Adequate	Adequate	Adequate	Adequate	Adequate	Good	X
Procurement						Adequate	
Change Management and Resources							
Partnership Working		Limited					
Fens Ecological Project		Adequate					
Consultation Activities and Partnerships Provisions							X
Planning							
Planning				Adequate			
IT Audits							
Disaster Recovery	Limited						
IT Governance and Strategy			Adequate				
Toll Management Application				Limited			
Network Security						Limited	
End User Controls							X

APPENDIX 3 – AUDIT REPORT EXECUTIVE SUMMARIES

Report No. BA/14/02 – Final Report issued 22 October 2013

Audit Report on Procurement

Audit Scope

The audit covered;
- Established Policies, Procedures, Laws and Regulations;
- Resources, Roles and Responsibilities;
- Contract Register; and
- Compliance with Tender and Quotation Rules.

Assurance Opinion

Unsatisfactory Assurance	Limited Assurance	Adequate Assurance	Good Assurance

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed Adequate in managing the risks associated with procurement that fall within the scope of this audit. Although elements of procurement were subject to review as part of the Key Controls (BA1302) audit undertaken in January 2013, no previous audit specifically relating to procurement has been undertaken by Deloitte at the Authority; hence, we have not deemed it appropriate to provide a direction of travel indicator. The assurance opinion has been derived as a result of four medium priority and two low priority recommendations being raised upon conclusion of our work concerning procurement.

Weaknesses were identified with the completeness and the use of the Authority's Contracts Register. A number of contracts appeared on the register with expired contract end dates and there are no responsible officers detailed for individual contracts. One on-going contract which had an expiry date of 30 October 2012 was missing from the Contracts Register. The Head of Finance confirmed that the Contracts Register is not currently used to monitor contracts which are due to expire to prompt timely procurement activity. A review of the Contracts Register has been recommended. To help facilitate this a recommendation for the Authority to undertake a full purchase ledger analysis to help identify contracts not currently on the Contracts Register; and to identify opportunities where contracts could be put in place with frequent suppliers has been made.

Four payment arrangements / contracts were identified which the Authority should undertake further investigation to determine whether current arrangements with suppliers are in line with Authority CSOs and whether a more formalised / contractual arrangement should be put in place with the supplier.

Two cases of non-compliance with CSOs relating to waivers were identified. The Authority should undertake a review of these arrangements and report procurement activity as appropriate to Broads Authority.

Reliance was placed on work undertaken by the First Level Controller (FLC) at Norfolk County Council regarding procurement activity linked to significant projects STEP and PRISMA. We confirmed that six monthly expenditure returns are collated by the Authority for each project and are audited by the FLC before they are submitted to the European Regional Development Fund (ERDF). The FLC is required to verify that expenditure has been incurred in line with ERDF funding conditions, including compliance with Authority CSOs. We verified that returns for both projects relating to periods December 2012 and June 2013 had been verified by the FLC. Furthermore, the FLC did not make us aware of any instances where procurement activity linked to STEP and PRISMA had been refused or reclaimed from ERDF.

Positive Findings

It is acknowledged there are areas where sound controls are in place and operating consistently:

- Up to date policies and procedures, including CSOs reviewed and approved by FSAC on 9 July 2013, are available to Authority staff via the staff intranet; and
- Changes to Authority CSOs have been communicated to officers across the Authority.

Control weaknesses to be addressed

During our work we have identified the following area(s) where we believe that the processes / arrangements within procurement would benefit from being strengthened, and as a result of these findings medium priority recommendations have been made.

- Weaknesses with the completeness and use of the Contracts Register were identified. The Contracts Register should be updated to include further details of contracts the Authority has entered into, including responsible officers for individual contracts. The Contracts Register should be reviewed and updated to include all contracts the Authority has entered into. The Contracts Register should then be subject to regular review to prompt timely review of expiring contracts and to ensure that timely procurement activity is initiated;
- The Authority does not undertake an analysis of the purchase ledger to identify whether the Authority should consider making a contract with suppliers which are not currently subject to one. A full analysis of the purchase ledger should be undertaken to help identify frequent payments to suppliers where contracts are not currently in place which may need further investigation to determine whether the Authority would benefit from a more formalised / contractual arrangement;
- Two procurement exercises where the Authority's CSOs were not adhered to should be reviewed and reported to Broads Authority, facilitating formal scrutiny of the reasons which led to non-compliances with CSOs and to allow for any lessons to be learnt; and
- The audit identified four payment arrangements / contracts which should be subject to further investigation to determine whether arrangements need formal review to comply with CSOs or where more formalised arrangements could be put in place to reduce procurement costs.

Low priority recommendations have also been raised around providing procurement training for staff and the retention of tender documentation.

Summary of the adequacy and effectiveness of controls

	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				High	**Medium**	**Low**
Adequacy and Effectiveness Assessments	Established Policies, Procedures, Laws and Regulations	**Green**	**Green**	0	0	0
	Resources, Roles and Responsibilities	**Amber**	**Amber**	0	0	1
	Contracts Register	**Amber**	**Amber**	0	2	0
	Compliance with Tender and Quotation Rules	**Green**	**Amber**	0	2	1
Total				**0**	**4**	**2**

High Priority Recommendations

No high priority recommendations have been raised as a result of this audit

Management Responses

Management have accepted the recommendations raised.

Report No. BA/14/03 – Final Report issued 15 April 2014

Audit Report on Key controls

Audit Scope

The scope of the audit covered:

- Treasury Management / Investments;
- Main Accounting System / General Ledger;
- Fixed Assets;
- Budgetary Control;
- Creditors / Purchase Ledger;
- Debtors / Sales Ledger;
- Payroll;
- Toll Income; and
- Follow Up of Internal Audit Recommendations.

The audit has also incorporated testing the expected controls from External Audit key control flowcharts and documentation. This work is relied upon by the External Auditors during their annual statutory review of the Authority's accounts and financial processes

Assurance Opinion

Unsatisfactory Assurance	Limited Assurance	Adequate Assurance	Good Assurance

Rationale supporting the award of the opinion

The control environment is deemed Good, to support the achievement of management's objectives and, with the exception of the Purchase Ledger where one low priority recommendation has been raised, and one exception identified within Toll income, which has been noted - all key controls were confirmed to be operating effectively through the testing undertaken. The overall level of assurance has improved since the previous audit of Key Controls undertaken in 2012/13 (BA1302).

Good progress has been made with regards to the implementation of recommendations raised through previous audits, including audits within 2013/14: three High priority, eight Medium and seven low priority recommendations remain outstanding and confirmation was sought that actions are in progress. From the recommendations outstanding, seven are not due whilst we confirmed that the remaining are in progress.

Positive Findings

We found that the Authority has demonstrated the following points of good practice as identified in this review and, where applicable, we will be sharing details of these operational provisions with other member authorities in the Consortium:

- Controls tested were found to be adequate and effective in the following areas: Treasury Management; General Ledger; Fixed Assets; Budgetary Control; Sales Ledger; Payroll.
- Good progress had been made with regards to the implementation of recommendations from previous audits, in terms of both key financials and other operational and governance related areas.

Control weaknesses to be addressed

During our work we have identified the following area where we believe that the processes / arrangement within the Purchase Ledger would benefit from being strengthened and, as a result of these findings, one low priority recommendation has been raised. This relates to the following:

- One payment was noted through testing on a sample of 25 payments made during 2013/14, whereby a purchase order form could not be located in the system. For two more cases, the purchase order forms had not been scanned onto the system.

In addition, we identified one exception out of 15 in which the narrative notes on the Toll Management system had been updated when the case was closed, five months after the initial letter was issued. There is a risk that should any enquiries be made regarding the case whilst open and the hardcopy file not be available, that the current status cannot be advised. We note that this is not general practice and the hardcopy file is the main record, as such no recommendation has been raised. Management advised that files are retained in the Tolls Office at all times

Summary of the adequacy and effectiveness of controls

	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				High	**Medium**	**Low**
Adequacy and Effectiveness Assessments	Treasury Management	Green	Green	-	-	-
	Main Accounting System/General Ledger	Green	Green	-	-	-
	Fixed Assets	Green	Green	-	-	-
	Budgetary Control	Green	Green	-	-	-
	Purchase Ledger	Green	Amber	-	-	1
	Sales Ledger	Green	Green	-	-	-
	Payroll	Green	Green	-	-	-
	Toll Income	Green	Green	-	-	-
Total				**0**	**0**	**1**

High Priority Recommendations

No high priority recommendations have been raised as a result of this audit

Management Responses

Management have accepted the recommendation raised.

Report No. BA/14/05 – Final Report issued 22 January 2014

Audit Report on Networks Security

Audit Scope

The audit covered the following areas;
- Domain accounts policies;
- Audit policy settings;
- User privileges;
- Trusted and trusting hosts;
- User accounts and passwords;
- Services and drivers;
- Home directories, logon scripts;
- Registry key settings;
- Logical drives;
- Default login accounts;
- Discretionary access controls (DACLs);

In addition the auditors utilised Computer Assisted Audit Techniques (CAATs) to extract data for audit testing purposes. The SekChek tool was used.

Assurance Opinion

Unsatisfactory Assurance	Limited Assurance	Adequate Assurance	Good Assurance

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed Limited in managing the risks associated with network security that fall within the scope of this audit. The assurance opinion has been derived as a result of three high, five medium and four low Priority recommendations being raised upon conclusion of our work concerning network security. The high priority recommendations relate to the need to review the Domain Accounts policy, accounts where passwords are not changed regularly and accounts with passwords that never expire. The medium priority recommendations cover the need for a periodic review of the Windows audit trail, a review of accounts with generic names, rights to be granted to no one, the built-in Administrator account and security option settings.

Positive Findings

It is acknowledged there are areas where sound controls are in place and operating consistently.:

- There are a relatively small number of user accounts, which are generally being well managed in terms of the number of expired account;
- The Guest account has been disabled.

Control weaknesses to be addressed

During our work we have identified the following area(s) where we believe that the processes / arrangement within Network Security would benefit from being strengthened, and as a result of these findings high priority recommendations have been made.

- The Domain accounts policy settings required review to adhere to leading practice and to help provide further security;
- A review of accounts should be undertaken whose passwords are not changed regularly to confirm that they are actively required. This will help to ensure that the number of such accounts are kept to an absolute minimum and secure the network; and
- A review of accounts that never expire should be conducted to improve security and reduce the risk of inappropriate access.

During our work we have identified the following area(s) where we believe that the processes / arrangement within Network Security would benefit from being strengthened, and as a result of these findings medium priority recommendations have been made.

- A periodic review of the Windows audit trail should be conducted to monitor key audit trail events. This will help to detect potential malicious activity on a more proactive basis;
- A review of generically-named user accounts should be conducted to ensure that the number of these is reduced where possible to increase accountability over activities;
- Certain system privileges that should not be granted to users were found to have been assigned to certain user accounts. These are high privilege permissions that should only be granted to system accounts and which could compromise the network should they be granted inappropriately;
- The built-in Administrator account should not be being used and should be renamed to increase accountability; and
- A review of security option setting should be conducted to enhance security.

During our audit we have also raised four low priority recommendations which will provide enhancements to the current system in relation to Network Security.

Summary of the adequacy and effectiveness of controls

	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				High	Medium	Low
Adequacy and Effectiveness Assessments	Domain accounts policies	**Amber**	**Amber**	1	0	0
	Audit policy settings	**Amber**	**Amber**	0	1	1
	User privileges	**Amber**	**Amber**	0	2	0
	Trusted and trusting domains	**Green**	**Green**	0	0	0
	User accounts and passwords	**Amber**	**Amber**	2	1	1
	Services and drivers	**Amber**	**Amber**	0	0	1
	Home directories, logon scripts	**Green**	**Green**	0	0	0
	Registry key settings (security options)	**Amber**	**Amber**	0	1	0
	Logical drives	**Green**	**Green**	0	0	0
	Default login accounts	**Green**	**Green**	0	0	0
	Discretionary access controls (DCALs)	**Amber**	**Amber**	0	0	1
Total				**3**	**5**	**4**

High Priority Recommendations

Three high priority recommendations have been raised as a result of this audit.

Domain accounts policy (recommendation 1)

Management should conduct a review of the Domain Account Policy in the following areas:

- Password complexity should be enabled;
- Locked user accounts should be set to stay locked permanently and only unlocked by an administrator on request. The current setting is ten minutes, which resets a locked account automatically after that time period has elapsed;
- Password history size should be increased to 22 or more. The setting is currently five passwords remembered;
- Lockout counter in minutes should be set to 1440 minutes. The current setting is ten minutes; and
- The built in administrator and Guest accounts should be renamed.

Management response

Agreed and implemented.

Accounts where passwords are not changed regularly (recommendation 6)

A review of all accounts where the password is not being changed regularly should be conducted to better understand whether the accounts are still required or should have their settings changed to force password changes more regularly.

Management response

A large number of these accounts are service accounts with passwords that never expire, the others are mostly group accounts. All will be reviewed.

Accounts with passwords that never expire (recommendation 7)

Management should conduct a review of all accounts where passwords are set to never expire. Additionally, the built in Administrator account, should have its password manually changed on a periodic basis, for example when a staff member who has knowledge of the password leaves.

Management response

Agreed. These are mostly service accounts, the number is currently superficially high as the new DMS system, currently under development, uses a different set of service accounts to the existing version. A review of the accounts will take place.

Management Responses

Management have accepted the recommendations raised.

Report No. BA/15/01 – Final Report issued 23 May 2014

Audit Report on Corporate Governance and Risk Management

Audit Scope

The scope of the audit covered Corporate Governance and Risk Management.

Assurance Opinion

Unsatisfactory Assurance	Limited Assurance	Adequate Assurance	Good Assurance

Rationale supporting the award of the opinion

The system of internal control is, overall, deemed 'Good' in managing the risks associated with Corporate Governance and Risk Management. The level of assurance, which is derived from two low priority recommendations, one for each area, has remained unchanged since the previous audit undertaken in this area in April 2013.

Positive Findings

It is acknowledged there are areas where sound controls are in place and operating consistently with reference to Corporate Governance and Risk Management. In particular:

Corporate Governance

- Key corporate governance documents are in place establishing the Authority's Ethical Standards and Corporate Governance structure which have been approved by the Members;
- The Authority's Ethical Standards and Policies are available to the public and other stakeholders;
- The Annual Governance Statement is prepared each year and issued in September following approval by the Members;
- A formal process is in place regarding escalation of issues/complaints made relating to ethical behaviour and transparency by the Authority's Members;
- Performance against the Authority's key strategic objectives as stipulated in the Broads Plan 2011–2016, is documented and monitored by the Members, the Management Team and the Management Forum (Heads of Service); and
- Clear Strategic Priorities have been identified following major public consultations and are reviewed annually. Performance of the Authority is assessed against each strategic priority with progress available on the Authority's website.

Risk Management

- There is a robust mechanism in place that assists the risk identification process;
- A Risk Register is in place which is updated twice a year by the risk owners and is reported annually at the Financial Scrutiny and Audit Committee; and
- A Risk Management Policy is in place which clearly sets out the Authority's risk tolerance, as well as risk classification, deduced from the scoring method.

Control weaknesses to be addressed

During our work we have identified one area for Corporate Governance and one for Risk Management where we believe that further enhancements could be made, in particular, to undertake annual reviews of their Declarations of Interests and further additions to the Risk Register which would assist Members and risk owners in monitoring risk performance more efficiently.

Summary of the adequacy and effectiveness of controls

Adequacy and Effectiveness Assessments	Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
				High	Medium	Low
	Corporate Governance	Green	Amber	-	-	1
	Risk Management	Green	Amber	-	-	1
Total				**0**	**0**	**2**

High Priority Recommendations

No high priority recommendations have been raised as a result of this audit

Management Responses

Management have accepted the recommendations raised.

APPENDIX 4 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

I have prepared the Internal Audit Annual Report and engaged Mazars (the Internal Audit Services contractor) to undertake the agreed programme of work as approved by management and the Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2013/14 Annual Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit briefs and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness.   Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.   That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations.   These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating to the Broads Authority is for the year ended 31 March 2014.   Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:
- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Internal Audit Consortium Manager has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities.   However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and Mazars examinations as the Authority's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.