

Financial Scrutiny and Audit Committee

10 February 2015

Agenda Item No 8

Internal Audit Strategic and Annual Plans 2015/16

Summary: This report provides an overview of the stages followed prior to the formulation of the Strategic Internal Audit Plan for 2015/16 to 2017/18 and the Annual Internal Audit Plan for 2015/16.

The resulting Annual Internal Audit Plan will then serve as the work programme and initial terms of reference for the Authority's Internal Audit Services Contractor, TIAA Ltd, and provide the basis upon which the Internal Audit Consortium Manager will subsequently give and Annual Audit Opinion for 2015/16.

Recommendations:

The Committee is requested to approve:

- (i) the minor amendments to the Internal Audit Charger as noted with the report;
- (ii) the Internal Audit Strategy for 2015/16;
- (iii) the Strategic Internal Audit Plan for 2015/16 to 2017/18; and
- (iv) the Annual Internal Audit Plan for 2015/16.

The Committee is requested to note:

- (v) the Performance Management measures for the new Internal Audit Contractor.

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 The formulation of the Strategic and Annual Internal Audit Plans for 2015/16 is described in the attached report, and the resulting plans contained therein.

Background papers: Nil

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Date of report: 16 January 2015

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Strategic and Annual Internal Audit Plans 2015/16

NORFOLK INTERNAL AUDIT CONSORTIUM



BROADS AUTHORITY

STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2015/16

RESPONSIBLE OFFICER

EMMA HODDS – INTERNAL AUDIT CONSORTIUM MANAGER (IACM)

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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 The PSIAS mandate a periodic preparation of a risk-based plan, which must incorporate or be linked to a strategic high level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities, this is set out in the Internal Audit Strategy.
- 1.3 Risk is defined as 'the possibility of an event occurring that will have an impact on the achievement of objectives'. Risk can be a have a positive and negative aspect, so as well as managing things that could have an adverse impact (downside risk) it is also important to look at potential benefits (upside risk).
- 1.4 The development of a risk-based plan takes into account the organisation's risk management framework. The process identifies the assurance (and consulting) assignments for a specific period, by identifying and prioritising all those areas on which objective assurance is required. This is then also applied when carrying out individual risk based assignments to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.
- 1.5 The following factors are also taken into account when developing the internal audit plan:
 - Any declarations of interest so as to avoid conflicts of interest;
 - The requirements of the use of specialists e.g. IT auditors;
 - Striking the right balance over the range of reviews needing to be delivered, for example systems and risk based reviews, specific key controls testing, value for money and added value reviews;
 - The relative risk maturity of the Authority;
 - Allowing contingency time to undertake ad-hoc reviews or fraud investigations as necessary;
 - The time required to carry out the audit planning process effectively as well as regular reporting to and attendance at Financial Scrutiny and Audit Committee, the development of the annual report and opinion and the Quality Assurance and Improvement Programme.
- 1.6 In accordance with best practice the Financial Scrutiny and Audit Committee should '*review and assess the annual internal audit work plan*'.

2. AUDIT CHARTER

- 2.1 The Audit Charter was developed as part of the planning process in 2014/15 and incorporated the requirements of the PSIAS. There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter will therefore be reviewed annually by the Internal Audit Consortium Manager to confirm its ongoing validity and completeness. In addition the Charter will be presented to the Head of Finance, Section 17 Officer, Senior Management and the Financial Scrutiny and Audit Committee every 2 years for review.

- 2.2 As part of the review in developing the internal audit plan for 2015/16, minor amendments were made to reflect the new contractor from 2015/16, and to reflect minor administrative changes. In addition the current Audit Charter has been reviewed by the new Contractor to ensure that this reflects the way that the company works. The only change is the introduction of formal exit meetings upon issue of the draft report, in addition to the debrief meetings that are held towards the end of the fieldwork. The use of exit meetings ensures that a robust and thorough discussion can be held on conclusion of the review and ensures that the action proposed by management to implement the recommendation(s) ensures that the risks are appropriately mitigated.
- 2.3 The Audit Charter will be further reviewed and refreshed once the new contract has been in operation for 6 months, and an updated Audit Charter will be presented to the Committee with the audit plans for 2016/17.
- 2.4 As part of the review of the Audit Charter the Code of Ethics are also reviewed by the Internal Audit Consortium Manager, and it is ensured that the Internal Audit Services contractor staff, as well as the Internal Audit Consortium Manager adhere to these, specifically with regard to; integrity, objectivity, confidentiality and competency.

3. INTERNAL AUDIT STRATEGY

- 3.1 The Strategy (**see Appendix 1**) sets out how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities. The purpose of the Internal Audit Strategy is to confirm:
- Internal Audit objective and outcomes;
 - Internal Audit Annual Planning;
 - How the annual internal audit opinion will be formed and evidenced;
 - How Internal Audit will identify and address local and national issues and risks;
 - How the service will be provided; and
 - The resources and skills required to deliver the service.

4. STRATEGIC INTERNAL AUDIT PLAN

- 4.1 The overarching objective of the Strategic Audit Plan (**see Appendix 2**) is to provide a comprehensive programme of review work over the next three years, with each year providing sufficient audit coverage to give annual opinions, which can be used to inform the organisation's Annual Governance Statement.
- 4.2 Having consulted with senior management, it has been confirmed that the Planning audit in 2015/16 is still of value, as will be the Marketing and Communications audit in 2016/17, with a focus on the impact of social media. In addition a review of external funding has been built into the plan for 2017/18 to focus on the Heritage Lottery funding for the Landscape Partnership Scheme. In addition the budget for the Key Controls and Assurance audit in 2015/16 has been increased by one day to enable a closer scrutiny of the Payroll service due to the new provision of the service. And in 2016/17 the budget for this audit has been increased by 2 days to enable scrutiny of the asset management database.

5. ANNUAL INTERNAL AUDIT PLAN

- 5.1 Having developed the Strategic Audit Plan, the Annual Audit Plan is an extract of this for the forthcoming financial year (**see Appendix 3**). This details the areas being reviewed by Internal Audit, the number of days for each review, the quarter during which the audit will take place and a brief summary / purpose of the review.
- 5.2 The Annual Audit Plan for 2015/16 totals 35 days, encompassing 4 assignments.

6. PERFORMANCE MANAGEMENT

- 6.1 The new Internal Audit Services contract includes a suite of key performance indicators (**see Appendix 4**) against which the new contractor will be reviewed on a quarterly basis. There are a total of 13 indicators, over 4 areas. From the first year of the contract records will be maintained for all 13, however performance can only be recorded on 11 of these as base line data is required for the final 2.
- 6.2 There are individual requirements for performance in relation to each indicator; however performance will be assessed on an overall basis as follows (for the first year):
- 9-11 KPIs have met target = Green Status.
 - 5-8 KPIs have met target = Amber Status.
 - 4 or below have met target = Red Status.
- Where performance is amber or red a Performance Improvement Plan will be developed and agreed with the contractor to ensure that appropriate action is taken.
- 6.3 Performance in relation to these indicators will be reported to the Committee as part of the Annual Report and Opinion, and officers will be kept up to date throughout the year.

APPENDIX 1 – INTERNAL AUDIT STRATEGY 2015/16

1. Introduction

- 1.1 The Internal Audit Strategy is a high level statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. The provision of such a strategy is set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The purpose of the strategy is to provide a clear direction for internal audit services and creates a link between the Charter, the strategic plan and the annual plan. In particular the strategy confirms:
 - Internal Audit objective and outcomes;
 - Internal Audit Annual Planning;
 - How the annual internal audit opinion will be formed and evidenced;
 - How Internal Audit will identify and address local and national issues and risks;
 - How the service will be provided; and
 - The resources and skills required to deliver the service.

2. Internal Audit objective and outcomes

- 2.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The outcomes of the internal audit service are detailed in the Internal Audit Charter and can be summarised as; delivering a risk based audit plan in a professional, independent manner, to provide the Authority with an opinion on the level of assurance it can place upon the internal control environment, systems of risk management and corporate governance arrangements, and to make recommendations to improve these provisions, where further development would be beneficial.
- 2.3 The reporting of the outcomes from Internal Audit is through direct reports to Senior Management in respect of the areas reviewed under their remit, in the form of an audit report. The Financial Scrutiny and Audit Committee, Head of Finance and the Section 17 Officer also receive:
 - The Audit Plans report, which is based on a risk assessment of the Authority and forms the next financial years plan of work; and
 - The Annual Report and Opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, which incorporates the outcome of each audit completed within the financial year.

3. Internal Audit Planning

- 3.1 In preparing the Internal Audit Plans, both strategic and annual, awareness of local and national issues and risk is maintained, as explained in section 5.
- 3.2 An annual audit needs assessment has historically been developed in relation to the service areas under review as part of the planning process. Seven key risk factors were identified which were then applied to potential audit areas and their impact on the Authority, these are;

materiality (value), materiality (volume), significance, complexity, change, inherent risk and profile. These risk factors were then weighted to produce a risk score, which translates into very high, high, medium and low, which in turn indicates the frequency of review.

- 3.3 The above outcomes are reviewed each year to ensure that the initial risk assessment applied to each area is correct. Also now in addition the previous assurance ratings applied to the area are also considered in deciding upon the frequency of review, as are current developments and changes within service areas to ensure that value is added through each internal audit review, and to enable a true risk based approach.
- 3.4 Going forwards the IT element of the plans will now be discussed and agreed at the same time as the overall plans. This was historically completed as a separate review by the contractor and resulted in additional reporting to the Financial Scrutiny and Audit Committee. However in order to be more efficient and to also ensure that all planning considerations can be taken into account at the same time, this will now form part of the normal planning process. The new contract does not start until 1 April 2015; therefore the IT audits currently reflected in the plan are draft and will be discussed in detail early in April between the Internal Audit Consortium Manager, Head of IT and Collector of Tolls and the IT Audit Manager to ensure that IT audit meets the requirements of the Authority.
- 3.5 The outcomes of the awareness of risks and issues, and the risk assessment of the Authority then formulate a Strategic Internal Audit plan, and the resulting Annual Internal Audit Plan. Consultation with the (previous) Head of Finance and the Section 17 Officer took place in December 2014 to review the draft plans and ensure that coverage was appropriate for the Authority. Current and future developments, changes, risks and areas of concerns were discussed and the plan amended accordingly to take these into account.
- 3.6 The resulting draft Strategic and Annual Internal Audit Plans were then discussed with and approved by Management Team prior to these being brought to the Financial Scrutiny and Audit Committee. In addition External Audit has also been provided with early sight of the plans.

4. Internal Audit Annual Opinion

- 4.1 The annual opinion provides Senior Management and the Financial Scrutiny and Audit Committee with an assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 4.2 The opinion is based upon:
 - The summary of the internal audit work carried out;
 - The follow up of management action taken to ensure implementation of agreed action as at financial year end;
 - 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.
- 4.3 In order to achieve the above Internal Audit operates within the PSIAS and uses a risk based approach to audit planning and to each audit assignment undertaken. The control

environment for each audit area reviewed is assessed for its adequacy and effectiveness of the controls and an assurance rating applied.

5. Local and National Issues and Risks

- 5.1 The annual audit planning process ensures that new or emerging risks are identified and considered at a local level. This strategy ensures that the planning process is all encompassing and reviews the records held by the Authority in respect of risks and issue logs and registers, reports that are taken through the Authority Committee meetings, a review of the audit needs assessment retained by Internal Audit and through discussions with Senior Management.
- 5.2 Awareness of national issues is maintained through the contract in place with the external contractor through regular "horizon scanning" updates being provided, and annually a particular focus provided on issues to be considered during the planning process. Membership and subscription to professional bodies such as the Institute of Internal Auditors and the CIPFA on-line query service, liaison with External Audit, and networking with colleagues through the Norfolk Chief Internal Auditors Group, all help to ensure developments are noted and incorporated where appropriate.

6. Provision of the Service

- 6.1 The Role of the Head of Internal Audit and contract management is provided by South Norfolk Council (the Internal Audit Consortium Manager) to; Breckland, Broadland, North Norfolk and South Norfolk District Councils, Great Yarmouth Borough Council and The Broads Authority. All Authorities are bound by a Partnership Agreement.
- 6.2 The delivery of the audit plans for each Authority is provided by an external audit contractor, who reports directly to the Internal Audit Consortium Manager. The current contract is with TIAA Ltd, and commences on 1 April 2015, for an initial period of 5 years.

7. Resources and Skills

- 7.1 Through utilising an external audit contractor the risk based audit plan can be developed without having to take into account the existing resources, as you would with an in-house team, thus ensuring that audit coverage for the year is appropriate to the Authority needs and not tied to a particular resource.
- 7.2 That said the external contractor does supply a core team of staff to deliver the audit plan, and these staff bring with them considerable public sector knowledge and experience. These core staff can be supplemented with additional staff should the audit plan require it, and in addition specialists, e.g. computer auditors, contract auditor, fraud specialists, can be drafted in to assist in completing the plan and focusing on particular areas of specialism.
- 7.3 All audit professionals are encouraged to continually develop their skills and knowledge through various training routes; formal courses of study, in-house training, seminars and webinars. As part of the contract with TIAA Ltd the contractor needs to ensure that each member of staff completes a day's training per quarter.

APPENDIX 2 – STRATEGIC INTERNAL AUDIT PLAN 2015/16

Audit Area	Last review & assurance	Associated Risk	2015/16	2016/17	2017/18
Annual Opinion audits					
Corporate Governance and Risk Management	Annual review	High	5	5	5
Key Control and Assurance	Annual review	High	16	17	15
Service area audits					
Planning	2011/12 - Adequate	Medium	7		
Marketing and Communication	Not previously reviewed	Medium		7	
External Funding	Not previously reviewed	High			8
ICT Audits					
IT audits to be confirmed			7		
IT audits to be confirmed				7	
IT audits to be confirmed					7
Total number of days			35	36	35

Computer Audit Needs Assessment - no longer a requirement under the new contract. IT audit planning is now part of strategic planning undertaken by the Internal Audit Consortium Manager. IT coverage will be reviewed early in 2015/16 and audits confirmed with management and the new contractor.

Audits Previously undertaken		
Service area audits		
Partnership Working	2009/10	Limited
Fens Ecological Project	2009/10	Adequate
Planning	2011/12	Adequate
Procurement	2013/14	Adequate
Consultation Activities and partnership provisions	2014/15	TBC
IT Audits		
Disaster Recovery	2008/09	Limited
IT Governance and Strategy	2010/11	Adequate
Toll Income Application Review	2011/12	Limited
Network Security	2013/14	Limited
End User Controls	2014/15	Adequate

APPENDIX 3 – ANNUAL INTENAL AUDIT PLAN 2015/16

Audit Area	No. of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Summary / purpose of audit
Annual Opinion audits						
Corporate Governance and Risk Management	5	5				The audit will focus on the Corporate Governance and Risk Management arrangements for 2014/15 and will inform aspects of the Annual Governance Statement 2014/15.
Key Control and Assurance	16				16	The budget for this audit is usually 15 days however it has been increased for 2015/16 to include specific review of the new Payroll provision arrangements.
Service Area audits						
Planning	7		7			This area was last audited in 2011/12 where the scope included a review of planning applications, enforcement and appeals. Focus this year needs to be on validation and consultation.
ICT Audits						
IT audits to be confirmed	7			7		Discussions will be had with the Head of IT in April 2015 to confirm where focus is required and will be of most use in 2015/16. The reserve list currently includes; Virus protection/spyware, Data Back Up & Data Centre, Email & Exchange and Document Management.
Total number of days	35	5	7	7	16	

APPENDIX 4 – PERFORMANCE INDICATORS

Area / Indicator	Target
<u>Audit Committee / Senior Management</u>	
1. Audit Committee Satisfaction – measured annually	Adequate
2. Chief Finance Officer Satisfaction – measured quarterly	Good
<u>Internal Audit Process</u>	
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	100%
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	100%
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)	100%
6. Compliance with Public Sector Internal Audit Standards	Full
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	100%
<u>Clients</u>	
8. Average feedback score received from key clients (auditees)	Adequate
9. Percentage of recommendations accepted by management	90%
<u>Innovations and Capabilities</u>	
10. Percentage of qualified (including experienced) staff working on the contract each quarter	60%
11. Number of training hours per member of staff completed per quarter	1 day
12. Number of high and medium priority recommendations made per quarter	To decrease over the life of the contract (from year 2)
13. Number of audits which are considered to add value	To increase over the life of the contact (from year 2)