

Internal Audit Annual Report and Opinion 2016/17
Report by Head of Internal Audit

Summary:

This report provides the Authority with an Annual Report and Opinion for 2016/17, drawing upon the outcomes of Internal Audit work performed over the course of the year and a conclusion on the Effectiveness of Internal Audit.

Recommendation:

The Committee is requested to:

- 1) Receive and consider the contents of the Annual Report and Opinion of the Head of Internal Audit.
- 2) Note that a reasonable audit opinion (positive) has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2017.
- 3) 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 2015/16.
- 4) Note the conclusions of the Review of the Effectiveness of Internal Audit.

1 Introduction / Background

- 1.1 In line with the Public Sector Internal Audit Standards, which came into force from 1 April 2013; 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; and,
 - Any other issues considered relevant to the Annual Governance Statement should be recorded.

- 1.2 This report 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; and,
 - The degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.
- 1.3 The Annual Report and Opinion 2016/17 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 2016/17, the Head of Internal Audit is able to give a **reasonable** opinion (positive) 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 compliant with the Public Sector Internal Audit Standards;
 - Is continually monitoring performance and looking for ways to improve; and.
 - Is compliant 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 Head of Internal Audit, which can then be used to inform the Authority's Annual Governance Statement.

Background Papers: None

Author: Emma Hodds, Head of Internal Audit
Date of Report: 15 June 2017

Appendices: Annual Report and Opinion 2016/17

Eastern Internal Audit Services



BROADS AUTHORITY

Annual Report and Opinion 2016/17

Responsible Officer: Emma Hodds – Head of Internal for Broads Authority

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1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive (known in this context as the Internal Audit Consortium Manager – IACM, carrying out the role of the Head of Internal Audit) 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 2016/17, 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 5**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

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 the Chairman of the Authority and the Chief Executive 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 Internal 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 9 February 2016. Any justifiable amendments that are requested during the year are discussed and agreed with

senior management. 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 is deemed to be **reasonable**, indicating a continued stable control environment.
- 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 opinion has been discussed with the Chief Financial Officer 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. In addition, **Appendix 2** is attached which shows the individual assurances provided over recent financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;
- Fundamental financial systems that underpin the Authority's financial processing and reporting;
- Service area audits 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.

3.3 Summary of internal audit work

The Financial Scrutiny and Audit Committee approved the Annual Internal Audit Plan for 2016/17, which is summarised at **Appendix 1** to this report and totalled 35 days, encompassing:

- An annual opinion of Corporate Governance and Risk Management;
- A fundamental financial system review of key controls and assurance, including verification of completion of audit recommendations;
- Service audit of external funding; and
- IT audit review.

3.4 The following is a summary of these audits, with **Appendix 3** to this report providing the detailed Executive Summaries.

External Funding – HLF Bid and National Parks Partnership

The objective of the audit is to review the systems and controls in place for the Heritage Lottery Fund (HLF) Bid and the National Parks Partnership.

The audit concluded with a **reasonable** assurance, with three important (priority two) and two needs attention (priority three) recommendations agreed with management. As at 31 March 2017 four of the recommendations have been addressed, with the remaining recommendation due to be implemented by the end of August 2017. This recommendation will ensure that procedural guidance for the Broads Landscape Partnership is in place, and management have confirmed that this will be developed following submission of the second-round application and will include management of payments, reporting structure and evaluation requirements. There will also be a contract specific to each project, which will include responsibilities related to CDM, insurance, safe-guarding etc.

Anti-Virus, Malware, Backups and Firewall Administration

The objective of this IT audit was to review the systems and controls in place for Anti-Virus/Malware protection, Backups and Firewall Management to help confirm that these are operating adequately, effectively and efficiently.

The audit concluded with a **reasonable** assurance, with one important and three needs attention recommendations agreed with management. All recommendations have been addressed within the financial year.

Corporate Governance

This key review area focused on the decision-making process, and in particular; executive and non-executive decision making in accordance with the Constitution and the systems and processes in place for the preparation of reports requiring executive and non-executive decisions.

The audit concluded with a **reasonable** assurance, with one important and four needs attention recommendations agreed with management. One needs attention recommendation has already been addressed with the other two recommendations due for implementation by the end of September.

The important recommendation will ensure that a clear record of the decisions made by the Broads Authority is maintained and that this is made available to the public on the website, in line with the Openness of Local Government Bodies Regulations 2014.

The needs attention recommendation involves review and update of the Constitution in respect of the standing orders, including specific reference to matters being decided by a majority vote and stipulating who has a casting vote and alongside this, review and update of the Broads Authority Terms of Reference of Committees, specifically the Financial, Scrutiny and Audit Committee to reflect that this is a consultative committee.

This regular review this year did not focus on risk management, the Head of Internal Audit has placed reliance on the regular reporting through to the Committee in this regard to be able to determine that sound controls are in place within this area.

Key Controls and Assurance

This audit is undertaken annually and reviews the key controls within the fundamental financial systems that inform the Statement of Accounts for year end. The areas covered within this review are; treasury management/investment, general ledger, asset management,

budgetary control, accounts receivable, accounts payable, payroll, toll income, control accounts, and follow up of internal audit recommendations.

The audit concluded with a **reasonable** assurance and four important and three needs attention recommendations were agreed with management on conclusion of the review, four of which have already been implemented.

The remaining recommendations are due for implementation by the end of August 2017. There are two important recommendations to be addressed which relate to; applying updates to the Financial Regulations to agree with actual process and to document procedures for the payroll review/checking and submission process undertaken by the HR team, including the role the Finance Team perform.

The needs attention recommendation will ensure that the toll procedure manual is updated to reflect the changes that came into force on the 1 April 2017 and confirm the toll payment enforcement process.

3.5 Follow up of management action

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 19 recommendations raised by TIIA Ltd in 2016/17, 13 have been actioned by management, five are not yet due and one is outstanding, as referred to earlier in the report (external funding).

The following table is the overall summarised year end position, with further detail provided at **Appendix 4**.

Number raised	19	
Complete	13	68%
Outstanding	1	5%
Not Yet Due	5	27%

The seven recommendations that required action from the 2015/16 financial year have also been addressed by management.

It is encouraging to note that recommendations relating to prior financial years have now been addressed, it is also extremely positive to note that prompt action is taken by management to address the recommendations that have been made within the financial year.

3.6 Issues for inclusion in the Annual Governance Statement

Internal Audit work has not identified any weaknesses that are significant enough for disclosure within the Annual Governance Statement.

4. **THIRD PARTY ASSURANCES**

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

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

A checklist for conformance with the PSIAS and the Local Government Application Note has been completed for 2016/17. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

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).

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.

On conclusion of 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.

The detailed internal assessment checklist has been forwarded to the Chief Financial Officer for independent scrutiny and verification.

5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the first review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that **“the internal audit service conforms to the professional standards and the work has been performed in accordance with the International Professional Practices Framework”**. Thus, confirming conformance to the required standards.

The external assessment report has been previously provided to the Chief Financial Officer and is also on the agenda for the Financial Scrutiny and Audit Committee.

5.2 Performance Indicator outcomes

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

Actual performance against these targets is outlined in the following table:

	Indicator	Frequency	Target	Actual	Comments
1	Audit Committee Satisfaction	Annual	Adequate	Good	Target exceeded

2	Chief Finance Officer Satisfaction	Annual	Good	Good	Target achieved
3	Annual draft reports issued within 10 working days of the end of the quarter	Quarterly	100%	100%	Achieved, four reports issued
4	Quarterly assurance reports to the Contract Manager within 15 working days of the end of the quarter	Quarterly	100%	100%	All quarterly reports received with 15 working days of year end.
5	An audit file supporting each review and showing clear evidence of quality control	Quarterly	100%	100%	Achieved for all four audits
6	Compliance with PSIAS	Annual	Generally Conforms	Generally Conforms	Target Achieved
7	Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received	Quarterly	100%	100%	Target Achieved
8	Average feedback scores from key clients	Quarterly	Adequate	Excellent	Target Exceeded – feedback received for all audits
9	Percentage of recommendations accepted by management	Quarterly	90%	100%	Target Exceeded
10	Percentage of qualified/experienced staff working on the contract each quarter	Quarterly	60%	100%	Target Exceeded
11	Number of training hours per member of staff completed each quarter	Quarterly	1 day	1 day	Target Achieved

- 5.2.3 It is encouraging to note that all performance measures have been achieved, with four of these exceeding targets. Client feedback has been provided in response to all the audits completed and has been extremely positive recognising the professional service provided & also the value that internal audit has brought to the Authority. The contractor has also provided the Authority with a higher percentage of qualified / experienced staff to undertake the audit reviews.

It is also extremely encouraging to note that all four audit reviews were finalised by 7 March 2017, thus ensuring that audits are completed within financial year.

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 Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within. There are some minor action that are required as followed::

- To review the Financial Regulations in light of the changes in the support from the Treasurer and Financial Advisor – these are currently being reviewed by the Chief Finance Officer.
- Regular meetings need to be scheduled between the Chief Finance Officer and the Head of Internal Audit (HIA) to ensure that the HIA is kept up to date over the course of the year – this has happened as and when required informally over the last year and does need to be formally set up going forwards.

- 5.3.3 The detailed checklist has been forwarded to the Chief Financial Officer for independent scrutiny and verification.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2016/17

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Corporate Governance	Reasonable	3	1				2
Fundamental Financial Systems							
Key Controls and Assurance	Reasonable	7	4				3
Service area audits							
External Funding – HLF Bid and National Parks Partnership	Reasonable	5	4		1		
IT audits							
Anti-Virus, Malware, Backups & Firewall Administration	Reasonable	4	4				
Total		19	13	0	1	0	5

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	0
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	4
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	0
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of	0

	the process. Immediate action is required to improve the controls required to mitigate these risks.	
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Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

APPENDIX 2 ASSURANCE CHART

	Previous Contract		Current Contract		
	2013-14	2014-15	2015-16	2016-17	2017-18
Annual Opinion Audits					
Corporate Governance and Risk Management	Substantial Review relates to 2012/13	Substantial Review relates to 2013/14	Substantial Review relates to 2014/15	Reasonable	x
Governance			Reasonable		
Fundamental Financial Systems					
Key Controls and Assurance Work	Substantial	Substantial	Reasonable	Reasonable	x
Procurement	Reasonable				
Services Area Reviews					
Consultation Activities and Partnerships Provisions		Reasonable			
External Funding - HLF Bid and National Parks Partnership				Reasonable	
Asset Management					x
Port Marine Safety Code					x
Planning			Reasonable		
IT Audits					
Toll Management Application					
Network Security	Limited				
End User Controls		Reasonable			
Virus Protection/Spyware, Data Backup and Data Centre controls				Reasonable	

APPENDIX 3 – EXECUTIVE SUMMARIES

Assurance Review of External Funding – Broads Landscape Partnership and National Parks Partnership

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Broads Landscape Partnership	0	2	1	0
National Parks Partnership	0	1	1	0
Total	0	3	2	0

SCOPE

The objective of the audit was to review the systems and controls in place within External Funding, as detailed in the action points above, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the Broads Landscape Partnership and National Parks Partnership Audit. The assurance opinion has been derived as a result of three 'important' recommendations and two 'needs attention' recommendations being raised upon the conclusion of our work.

KEY FINDINGS

Positive Findings

We found that the Broads Authority has demonstrated the following points of good practice:

- The National Parks Partnership has been set up as a limited liability partnership (LLP), which is a joint venture made up of 15 national parks, including the Broads Authority, for the purpose of engaging with the private sector and gaining commercial sponsorship. This has already resulted in joint working between Tesco and the Broads Authority about potential funding, therefore meeting the Government's drive for the Broads Authority to find new sources of funding for their work.
- An online project management tool called Basecamp is used by the Broads Authority to assist in the project management of the Broads Landscape Partnership. This tool provides a central place to manage projects and includes message boards and comment threads; real-time chat/pings; automatic check-ins; to-do lists; document / file storage and; a centralized schedule.

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

- Grant conditions for the Heritage Lottery Fund (HLF) Bid (Broads Landscape Partnership) are being met in a timely manner.
- There is a clear governance framework in place for the Broads Landscape Partnership and the Broads Authority is a key member/part of this.
- Clear deliverable/outcomes are in place for the Broads Landscape Partnership, with progress reports presented to the Board each time it meets.
- The Broads Landscape Partnership is project managed using an on line project management tool, which includes a project plan with key dates and budget information involving cash flow/expenditure against budget.

Issues to be addressed

The audit has highlighted the following areas whereby controls would benefit from being strengthened, and as a result of these findings three 'important' recommendations have been made.

Broads Landscape Partnership

- To develop procedural guidance for the Broads Landscape Partnership, thereby mitigating the risks of inconsistent practices occurring, inefficient and ineffective processes being applied and disrupted business continuity.
- The risk register and risk management strategy to be reported to the Broads Landscape Partnership Board as a standing agenda item. This should help reduce the risk that the Broads Landscape Partnership objectives are not achieved.

National Parks Partnership

- The Broads Authority to request that the following items are raised at the National Parks Partnership Management Board: 1) Production of a risk assessment/register; 2) Declarations of interest to be added as a standing agenda item and; 3) The agreement and documentation of standards of conduct for Management Board members. This mitigates the risks that the National Parks Partnership aims are not achieved and there is non-disclosure of interests.

The audit has also highlighted the following areas where two 'needs attention' recommendations have been made.

Broads Landscape Partnership

- To obtain signed copies of the Broads Landscape Partnership Project Board agreement from Easton & Otley College, Farm Conservation and River Waveney Trust, to help mitigate the risk that some partners do not deliver the scheme as intended.

National Parks Partnership

- To consider including the National Parks Partnership and Water Sensitive Farming Project with Tesco as separate risks within the next formal review of the Strategic Risk Register by the Management Forum. This would help highlight and subsequently reduce the key risks involved in these projects where, for example, there is significant potential for reputational risk.

Assurance Review of Anti-Virus, Malware, Backups & Firewall Administration

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Anti-Virus/Malware Protection	0	0	1	2
Backups	0	0	0	0
Firewall Administration	0	1	2	0
Total	0	1	3	2

SCOPE

The objective of the audit was to review the systems and controls in place for the administration of Anti-Virus, Malware, Backups and Firewalls, as detailed in the action points above, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the administration of Anti-Virus, Malware, Backups and Firewall processes. The assurance opinion has been derived as a result of one 'important' recommendation and three 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised two 'Operational Effectiveness Matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.

KEY FINDINGS

Positive Findings

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

- Sample testing indicates that Anti-Virus and Malware protection policies are being deployed to user machines and servers.
- Notification alerts for possible virus and malware infections are present and operating effectively.
- Firewall backups are taken whenever a change to the configuration changes regular basis. The backups are stored on the network and are backed up again by the corporate backup process.
- Onsite (Yare House) and Offsite (Dockyard) tape storage facilities are adequate.

Issues to be addressed

The audit has highlighted the following areas where one 'important' recommendation has been made.

Firewall Administration

- The Authority to either ensure that there is support for the current version of the firewall or to update the firmware if the current version is not supported or is nearing End of Life, thus ensuring continued vendor support.

The audit has also highlighted the following areas where three 'needs attention' recommendations have been made.

Anti-Virus/Malware Protection

- The Authority's IT acceptable Use Policy, known as Human Resources note number 18 needs to be updated to ensure that it contains adequate staff guidance on dealing with suspected virus infection and ensuring that hardware and software is only installed by IT staff. Thus ensuring that staff fully understand their responsibility in this area.

Firewall Administration

- The Authority to procure an appropriate log monitoring and reporting tool for reviewing internet activity to help ensure that internet bandwidth meets the Authority business needs and that network usage can be managed appropriately.
- The Authority to look into the feasibility of subscribing to internet block lists to help ensure that the internet is used appropriately by all staff.

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the consistent application of Server Anti-Virus/Malware protection policies and liaising with the Anti-Virus application vendor to understand the nature of certain dashboard reporting not operating as expected.

Assurance Review of Corporate Governance

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Executive and non-executive decision making in accordance with the constitution/governance arrangements	0	1	0	0
Systems and processes in place for the preparation of reports requiring executive and non-executive decisions	0	0	2	0
Total	0	1	2	0

SCOPE

The objective of the audit was to review the systems and controls in place within Corporate Governance, as detailed in the action points above, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the Corporate Governance. The assurance opinion has been derived as a result of one 'important' recommendation and two 'needs attention' recommendations being raised upon the conclusion of our work.

KEY FINDINGS

Positive Findings

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

Executive and non-executive decisions making in accordance with the Constitution/governance arrangements

- Powers reserved to the Broads Authority and those delegated to other authorities are detailed in the Broads Authority Terms of Reference of Committees document. The list of matters delegated to the Chief Executive and other officers are detailed in the Scheme of delegated powers.
- Key documents are in place that govern members and officers conduct, which are; the Code of Conduct for Members and Complaints Procedure (September 2016) and the Protocol on Member and Officer Relations in the Broads Authority. The Code of Conduct refers to decision making as part of members core values - 'We are open, honest and inclusive in our communication and in making decisions' and also states that decision making should be made objectively and with integrity and propriety.
- Risks in respect of decision making processes have been included in the strategic risk register, and examples of these include "decisions which are not made in accordance with planning policy" and "shortcomings in decision making due to poor financial management".

Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- The Broads Authority Member Development Strategy supports the development of staff, Members and co-opted Members to achieve continuous improvement of its services and was updated in January 2017. This includes details of member induction training, which incorporates governance and representation, including; the Broads Authority's Code of Conduct; the Planning Committee's Code of Conduct for Members and Officers (if applicable); Standing Orders; the Protocol on Member and Officer Relations in the Broads Authority; and the Broads Authority Communication Strategy.
- There are comprehensive systems and processes in place for the preparation of reports requiring decisions that include committee forward plan; committee agenda items discussion at management team (Chief Executive, Directors, Head of Finance and Monitoring Officer), circulation of committee deadlines, agendas and reports to members within a minimum of 6 working days and an Annual Governance Almanac which includes key governance milestones.

Issues to be addressed

The audit has highlighted the following areas where one 'important' recommendation has been made.

Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- A clear record of the decisions made by the Broads Authority is made available to the public in accordance with the Openness of Local Government Bodies Regulations 2014. This should include compiling a register of material decisions made since 2014; producing a set of guidance on what should be published and; production of a template document to record decisions. This assists in mitigating the risks that the Broads Authority commits an offence under this regulation and that there is incomplete transparency to the public.

The audit has also highlighted the following areas where two 'needs attention' recommendations have been made.

Executive and non-executive decisions making in accordance with the constitution/governance arrangements

- The (current) review of standing orders to include specific reference to matters being decided by a majority vote, stipulating who has a casting vote and to review and update the Broads Authority Terms of Reference of Committees, specifically the Financial Scrutiny and Audit Committee to reflect that this is a consultative committee. This should help to mitigate the risks that the voting process is unclear and matters decided upon are undertaken improperly and that the practices applied are inconsistent with agreed governance leading to ambiguity over which practices should actually be applied.

Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- To include items 6/9b (13/05/2016) – 'Berney arms, Halvergate marshes' and; 3/15 (18/11/2016) - 'that delegated authority be given to the Section 17 Officer to communicate the willingness of the Authority to join the scheme to PSAA' within the Summary of Progress/Actions Taken following Decisions of Previous Meetings. This helps to mitigate the risk that there is inadequate transparency on the progress of decisions made resulting in Members receiving an incomplete picture.

Previous audit recommendations

A previous audit of Corporate Governance and Risk Management was undertaken in May 2015, resulting in a 'Good' assurance opinion. Three low priority recommendations were raised which have since been implemented. An audit of Members Governance was also undertaken in April 2016, resulting in an 'Adequate' assurance opinion with two 'important' and three 'needs attention' recommendations being raised and subsequently implemented.

Assurance Review of Key Controls

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
General Ledger	0	0	1	0
Accounts Receivable	0	2*	1	0
Payroll	0	2	0	0
Toll Income	0	0	1	0
Total	0	4	3	0

No weaknesses were found with regard to Treasury Management/Investments, Asset Management, budgetary Control, Control Accounts and Cash and bank.

*This contains one recommendation which also applies to Accounts Payable.

SCOPE

The objective of the audit was to review the systems and controls in place within Key Controls, as detailed in the action points above, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the Key Controls. The assurance opinion has been derived as a result of four 'important' recommendation and three 'needs attention' recommendations being raised upon the conclusion of our work.

KEY FINDINGS

Positive Findings

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

Treasury Management

- Investments tested were documented and authorised and there is evidence of segregation between approval and transfer of funds.
- Loans and investments are reconciled to the general ledger and bank statements.

General Ledger

- The general ledger suspense account is reviewed on a monthly basis and any long outstanding items are cleared.

Asset Management

- All capital additions and disposals reviewed were authorised in accordance with procedures.
- The asset register is reconciled to the ledger once a year and access to the register is restricted to appropriate staff.

Budgetary Control

- After year-end (from July onwards), budget monitor reports are shared with budget holders on a monthly basis which highlight any variances above £10,000. These are accompanied by the an email from the Financial Accountant requesting an explanation of variances and changes to forecast outturn (year-end positions); commentary to explain significant variances (+/- £10,000) within their budgets and; requests for budget virements (budget transfers).
- Budgetary information, both capital and revenue is reconciled to the general ledger on a monthly basis

Accounts Payable

- Invoices were approved and authorised in accordance with the authorised signatories list.
- BACs runs had been signed and dated, prior to the payment run, by an appropriate officer.

Toll Income

- Payments had sequentially numbered plaques raised and recorded as issued on the system.

- Payment batches balanced to the payments received, and batch totals balanced to the Tolls Management System (TMS) for hire tolls, private tolls, overpayments and other payments.

Control Accounts

- The purchase control account, sales control account and salary control account are reconciled to the general ledger system on a monthly basis.

Cash and Bank

- Bank reconciliations were completed, reconciling items resolved and the reconciliations signed and dated by the preparer and reviewer.

Issues to be addressed

The audit has highlighted the following areas where four 'important' recommendations have been made.

Account Receivable

- Broads Authority Financial Regulations be amended to include the formalisation of processes regarding debtor payments being received in advance of goods/services delivered and; expansion of exceptions to paper purchase orders or requisitions being raised, to incorporate services/goods supplied which are covered by a formal contract. This assists in mitigating the risk that debt is irrecoverable and the Financial Regulations not reflecting the current practices.
- Procedures are documented for the sales ledger processes including the system of debt recovery. This should help mitigate the risks of inconsistent practices occurring, inefficient and ineffective processes being applied and disrupted business continuity.

Payroll

- The payroll errors risk to be raised at Management Team for inclusion in the strategic risk register, which will help to mitigate possible future material errors that could result in the payroll being paid incorrectly
- To document procedures for the payroll review/checking and submission process undertaken by the HR team, including the role the Finance Team perform. This should assist in reducing the risks of inconsistent practices occurring, inefficient and ineffective processes being applied and disrupted business continuity.

The audit has also highlighted the following areas where three 'needs attention' recommendations have been made.

General Ledger

- Adequate supporting documentation to be retained on file or sufficient narrative contained therein for all journals to help reduce the risk that journals have been processed incorrectly.

Accounts Receivable

- To ensure explanatory notes for more complex debtor cases are put onto Dimensions to explain the latest situation regarding each debt, assisting to reduce the risk that debt is not actioned in a timely manner or action is taken incorrectly.

Toll Income

- To update the Toll procedure manual to reflect all changes to the system, including the changes in toll charges from 1st April 2017 and to include the toll payment enforcement process. This should help to mitigate the risks of inconsistent practices occurring, inefficient and ineffective processes being applied and disrupted business continuity.

Other points to note

It was identified that 1/25 sampled invoice requisition forms were not date stamped to verify the date finance received them. This has not been included as a recommendation due to the Head of Finance taking action to address this during the audit.

Previous audit recommendations

The previous audit of Key Controls and Assurance was undertaken in April 2016, resulting in a 'Reasonable' assurance opinion. Three low priority recommendations were raised regarding Budgetary Control and Accounts Payable, which have since been implemented.

APPENDIX 4 – AUDIT RECOMMENDATIONS

			Completed bt 01/04/2016 and 31/03/2017			Previously reported to Committee as outstanding			Outstanding			Total	Not yet due for implementation		
Audit Ref	Audit Area	Assurance Level	Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3	Outstanding	Priority 1	Priority 2	Priority 3
2015/16 Internal Audit Reviews															
BA1603	Members Governance	Reasonable		2	3							0			
BA1604	Key Controls & Assurance	Reasonable			2							0			
2016/17 Internal Audit Reviews												0			
BA1701	External Funding	Reasonable		2	2					1		1			
BA1702	Anti -Virus, Malware, BackUps & Firewall	Reasonable		1	3							0			
BA1703	Corporate Governance & Risk Management	Reasonable			1							0		1	1
BA1704	Key Controls & Assurance	Reasonable		2	2							0		2	1
TOTALS			0	7	13	0	0	0	0	1	0	1	0	3	2

APPENDIX 5 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Financial Scrutiny and Audit Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2016/17 Annual Internal 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 2017. 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, as the Head of Internal Audit, 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 TIAA Ltd examinations as the Authority's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

