

Audit and Risk Committee

21 July 2020

Agenda item number 8

Internal Audit Annual Report and Opinion 2019/20

Report by Head of Internal Audit

Summary

This report provides the Authority with an Annual Report and Opinion for 2019/20, 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 approve 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 2020.
 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 2019/20.
 4. Note the conclusions of the Review of the Effectiveness of Internal Audit.
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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 2019/20 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 2019/20, 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.
- 1.6. 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.

Author: Emma Hodds, Head of Internal Audit

Date of report: 08 July 2020

Appendix 1 – Annual Report and Opinion 2019/20

Eastern Internal Audit Services



BROADS AUTHORITY

Annual Report and Opinion 2019/20

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 to provide a written report to those charged with governance (known in this context as the Audit and Risk 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 2019/20, 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 Audit and Risk 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 Management Team and key stakeholders and then approved by the Audit and Risk Committee at its meeting on 5 March 2019. 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 Audit and Risk 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 in relation to the framework of governance, risk management and controls at the Broads Authority is **reasonable**, with all audits concluding with a positive opinion. We therefore have no Internal Audit considerations for the Annual Governance Statement.

There are therefore no issues raised by internal audit that are significant enough for inclusion in the Annual Governance Statement.

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 Section 17 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 Summary of internal audit work

The Audit and Risk Committee approved the Annual Internal Audit Plan for 2019/20, which is summarised at **Appendix 1** to this report and totalled 36 days as originally planned, 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 Procurement and
- HLF External Funding.

A total of 15 recommendations were raised and agreed by management in 2019/20. In addition, 11 operational effectiveness matters points were raised for management consideration.

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

HLF Funding

This audit concluded with a reasonable assurance, with three important and three needs attention recommendations agreed with management. Important recommendations related to reviewing the Business Continuity Plan to consider the recent organisational re-structure and to ensure major projects such as the Water Mills and Marshes Project are provided for. Ensuring the next claim submission was amended and finance notified of an error and to carry out an independent accuracy check of actual costs to source prior to each quarterly claim

submission. All of these recommendations were due to be completed by December 2019. An update on progress is provided in our follow up section in Appendix 4 of this report.

Key Controls and Assurance

The audit looked at the fundamental systems that feed into the statement of accounts to provided assurance on the key controls. The areas reviewed were; Treasury Management/Investments, 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 substantial assurance grading with no recommendations raised.

Procurement

This audit concluded with a reasonable assurance, with four important and three needs attention recommendations agreed with management. The important recommendations were all due for completion by end of March 2020 and related to: ensuring all contracts over £100k have received the Broads Authority seal and added to the Authorities record of sealed documents. To ensure that waivers are completed for all procurement which exceed the £5k threshold. To ensure that procurement guidance is reviewed and updated, and version controlled and to ensure that a contract risk assessment is produced to score each project as referred to in the procurement strategy. An update on progress is provided in our follow up section in Appendix 4 of this report.

Corporate Governance and Risk Management

This audit concluded with a reasonable assurance grading, with one important and one needs attention recommendations agreed with management. The important recommendation is due for completion by August 2020 and relates to the Management Team reviewing National Park Authority comparison data, setting targets where applicable and addressing performance gaps.

3.4 Follow up of management action

In relation to the follow up of management actions the position at year end is that of the 15 recommendations raised by TIIA Ltd in 2019/20, nine are complete and three are outstanding and three are within deadline.

The following table is the overall summarised year end position for 2019/20, and the management responses for the outstanding recommendations are provided at **Appendix 4**.

Number raised	15	
Complete	9	60%
Outstanding	3	20%
Within Deadline	3	20%

3.4.1 A total of two needs attention recommendations remain overdue from the 2018/19 Branding Internal Audit review.

3.5 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 2019/20. 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 is provided 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 the Audit and Risk Committee. All improvement points raised have been completed.

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:

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Adequate	Achieved
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved
<u>Internal Audit Process</u>				
3. Each quarters audit's completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	100%	Achieved – 4 assurance reports.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	75%	For quarter three the quarterly report was received 1 day after the 15 working day deadline.
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%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards		Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.		100%	n/a	No issues to address.
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Good	Exceeded, 2 responses received.
9. Percentage of recommendations accepted by management		90%	100%	Exceeds
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	100%	Exceeds
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.2.2 It is encouraging to note that all but one of the performance measures have been achieved, with three of these exceeding targets. Client feedback has been provided in response the audits completed and has been positive recognising the professional service provided and 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.

One performance measure was not achieved in 2019/20 in relation to receiving the quarterly performance report from the contractor within 10 days. As per commentary, this was received

one working day after the deadline. No significant concerns have been raised with the contractor on this occasion as this was an isolated incident.

It is also extremely encouraging to note that all four audit reviews were finalised by 23 April 2020, thus ensuring that audits are completed within financial year and ensuring that this annual opinion can be ready in line with the earlier reporting requirements associated with the audit of the accounts.

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

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2019/20

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Corporate Governance and Risk Management	Reasonable	2	0	0	0	0	2
Fundamental Financial Systems							
Key Controls and Assurance	Substantial	0	0	0	0	0	0
Service area audits							
HLF External Funding	Reasonable	6	5	0	1	0	0
Procurement	Reasonable	7	4	0	1	1	1
Total		15	9	0	2	1	3

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.	1
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.	3
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 the process. Immediate action is required to improve the controls required to mitigate these risks.	0

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

	Current Contract					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Annual Opinion Audits						
Corporate Governance and Risk Management		Reasonable	Reasonable	Reasonable	Reasonable	X
Governance	Reasonable					
Fundamental Financial Systems						
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Substantial	Substantial	X
Procurement					Reasonable	
Services Area Reviews						
Consultation Activities and Partnerships Provisions						
External Funding - HLF Bid and National Parks Partnership		Reasonable			Reasonable	
Asset Management			Reasonable			
Port Marine Safety Code			Reasonable			X
Branding				Reasonable		
Planning	Reasonable					X
IT Audits						
Toll Management Application						
Network Security						
End User Controls						
Disaster Recovery				Reasonable		
Virus Protection/Spyware, Data Backup and Data Centre controls		Reasonable				

APPENDIX 3 – EXECUTIVE SUMMARIES

Assurance Review of National Heritage Lottery Fund - External Funding Arrangements Water Mills and Marshes Project

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Governance arrangements	0	1	2	0
Performance measures	0	0	0	0
Financial management including procurement	0	2	1	0
Total	0	3	3	0

SCOPE

The objective of the audit is to review the adequacy, effectiveness and efficiency of the systems and controls in place over the NHLF – External Funding process.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of three 'important' and three 'needs attention' recommendations being raised upon the conclusion of our work.
- The previous report was issued in December 2016 (BA1701), with a 'Reasonable' assurance, this covering the National Parks Partnership in addition to the WMM project. Two 'important' and one 'needs attention' recommendations were raised in respect of the WMM project, which indicates an adverse change in the direction of travel. However, one important recommendation in this audit refers to a corporate control issue rather than one specific to the WMM project.

POSITIVE FINDINGS

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

Governance

- 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.
- On overall project plan is in place for the development phase which all 38 individual projects which facilitates effective project management.
- Electronic minutes were obtained for the last board meeting and sample minutes were also reviewed enabling the verification that up to date record of project board decisions are maintained.

Performance Measures

- A monthly update/report of the project's progress is provided to the Broads Authority Management Team assisting in the senior managers understanding of the project and its progress in a timely manner.

Financial Management

- A comprehensive spreadsheet is maintained by the Programme Manager which tracks the budget including match funding. This includes a separate worksheet for each project which enables budget management at individual project level incorporating budget against actual figures.

ISSUES TO BE ADDRESSED

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

Governance

- The Broads Authority Business Continuity (BC) Plan is reviewed and updated to take into account the recent organisational re-structure and to ensure major projects such as the WMM Project are provided for. This mitigates the risk that BC management procedures and priorities are not embedded in the Broads Authority.

Financial Management

- Duplicate amount of £835 to be subtracted from the next claim submission and finance notified of this error which mitigates the risk of grant funding being withheld.
- An independent accuracy check of actual costs, to source, is undertaken prior to each quarterly claim submission mitigating the risk of human error and potential duplication.

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

Governance

- To update the project risk registers to clearly define the current risk score, target risk score and risk appetite. This assists in preventing risks from being misunderstood or not properly mitigated in line with risk appetite.
- Declaration of interests are minuted, including incidences where there are none which reduces the risk that conflicts of interests are not sufficiently mitigated leading to a poor standard of integrity and reputation and potential fraud.

Financial Management

- Evidence that tenders are advertised on the BA's website/social media page and on industry specific websites/in newspapers or journals, to be retained. This mitigates the risks that there is inadequate transparency and fairness in the procurement process and the BA does not obtain VFM from its procurements.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Assurance Review of Key Controls and Assurance Framework Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

No recommendations arose in the areas reviewed.

SCOPE

This audit looks at the fundamental systems that feed into the statement of accounts to provide assurance on the key controls. The areas reviewed as part of this audit are; Treasury Management/Investments, General Ledger, Asset Management, Budgetary Control, Accounts Receivable, Accounts Payable, Payroll, Toll Income, Control Accounts, and Follow Up of Internal Audit Recommendations.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Substantial Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of no recommendations being raised upon the conclusion of our work.
- This assurance opinion indicates that the overall level of control has remained the same since the previous audit of Key Controls and Assurance in 2018/19, which concluded in a 'Substantial' assurance opinion, with no recommendations raised.

POSITIVE FINDINGS

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

- The 2019/20 budget was approved by the Broads Authority Committee meeting on the 1st February 2019 and individual budget holders sign up to their allocated budgets, therefore ensuring budgets are clearly understood.
- Monthly 'Monitor' reports are shared with budget holders and there is a process requiring significant variances to be explained, helping to maintain budgetary control.
- Journals and virements are properly documented and authorised with a separation of duties demonstrated, thus helping to ensure approved journals are processed, accurate reporting and sound budgetary control.
- Capital asset additions and disposals are appropriately authorised. Annual asset reconciliations are undertaken, helping to ensure that assets are correctly recorded in the Authority's accounts.
- Investments are authorised and evidence is retained to confirm the terms of the investment, with reconciliations to the general ledger of the principal amount and interest thus ensuring that all expected returns are received.
- In respect of accounts receivable, testing found that invoices are promptly raised, credit notes are rarely needed, and aged debts are promptly reviewed and followed up. This helps to ensure that income is promptly received, as demonstrated that there are few aged debts.
- Testing of invoices paid confirmed that all were correctly authorised with a separation of duties being demonstrated, helping to ensure that invoices were correctly paid. This is further supported by checking and authorisation of weekly BACS payment runs.

- New suppliers and supplier amendments are listed on a report which is checked and signed off as part of each week's reconciliation payment run. Sample testing confirmed that bank details are verified with the supplier using contact details from Google or records independent to the notification, reducing the risk of fraudulent changes.
- Norfolk County Council (NCC) run the payroll on behalf of the Broads Authority, in accordance with a monthly timetable. Monthly pay runs are reviewed, including an investigation into any differences over £50 compared with the previous month and a review of any claims. Pay runs are reproduced and rechecked when any errors are corrected by NCC, and the final pay run is authorised prior to payment.
- Payroll starters, changes, and leavers are supported by fully completed and authorised forms, and are correctly processed as was confirmed from pay run data and removal of leavers from the pay runs. Claims for overtime, allowance, travel and subsistence are also correctly authorised and processed. This helps to reduce the risk of overpayments being made.
- The control accounts for sales ledger, purchase ledger and payroll, along with the bank accounts and the suspense account, are reconciled to the general ledger on a monthly basis. Documentation demonstrates these have been promptly undertaken and independently signed off, helping to provide assurance that all transactions have been processed correctly.
- Toll charges were approved by the Broads Authority, as per publicly available meeting minutes. Notifications of the new charges were made in advance of the financial year, helping to ensure awareness of the fees needing to be paid.
- There is a process of inspections in place to identify any vessels without permits, and audit testing of permits issued confirmed that payment had been received in all cases. Review of a contraventions report confirmed that unpaid tolls are promptly followed to ensure as much income as possible is received in a timely manner.
- The Tolls Management System (TMS) posting reports data is reconciled to the Dimensions financial system on a daily or weekly basis, depending on the time of year, in order to ensure data on the two systems matches.

ISSUES TO BE ADDRESSED

Recommendations and Operational Effectiveness Matters

There are no recommendations or operational effectiveness matters for management to consider.

Previous audit recommendations

No recommendations arose as part of the previous audit review.

Assurance Review of Procurement

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Compliance with procurement/contract legislation (including GDPR), contract standing orders and procurement strategy	0	4	3	2
Contract Management Framework including contract register	0	0	0	4
Total	0	4	3	6

SCOPE

The objective of the audit is to review the adequacy, effectiveness and efficiency of the systems and controls in place over the Procurement process.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of four 'Important' and three 'Needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised six '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.
- The previous report on Procurement was issued in October 2013 (BA/14/02), with a 'Reasonable' assurance having raised four 'Important' and two 'Needs attention' recommendations which have since been confirmed as implemented. This indicates an unchanged direction of travel since the previous audit in this area.

POSITIVE FINDINGS

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

Procurement

- The Procurement Strategy is up to date and readily available to all members of staff on the Broad Authority's intranet. This provides the Broads Authority with clear direction enabling greater efficiencies including selecting the best procurement route and demonstrating value for money.

Contract Management

- The contract register is reviewed and updated on a quarterly basis, the register being formatted to highlight contracts that are due to expire within six months; copy of contract is still outstanding; and contract expired and urgent action required. This enables the Broads Authority to effectively manage progress with its contracts in a timely manner, reducing the risks that contracts are not uploaded and expire without required action taken.
-

ISSUES TO BE ADDRESSED

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

Procurement

- To ensure that the Broads Authority seal is applied to all contracts over £100k and subsequently recorded in the Authority's record of sealed documents. This helps mitigate the risk that the contract is not formally recorded and or is mislaid leading to contract terms not being correctly applied, with no recall for the authority in the event of disputes.
- To ensure that waivers are completed for all procurements which exceed the £5K threshold and where the requirement in CSOs to obtain three written quotations, is not applied. This helps mitigate the risk of inadequate probity, transparency and equality in the procurement of works, goods and services leading to the non-achievement of value for money.
- The Procurement guidance is reviewed and updated and version controlled including the inclusion of up to date procurement thresholds, including those relating to OJEU requirements. This assists in mitigating the risk that CSOs are not complied with and failure to achieve value for money.
- A procurement project/contract risk assessment is produced to score each project which is referred to in the Procurement Strategy. This mitigates the risks of choosing an unsuitable procurement method and inappropriate supplier and not having the necessary resources in place to effectively manage the contract.

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

Procurement

- CSOs are amended to reflect the current processes in relation to the authority's standing list and to remove reference to the Solicitor and Monitoring Officer. This helps reduce the risk of inconsistent practices being followed leading to agreed practices not being adhered to.
- To consolidate the standard terms document with the contract conditions outlined in the CSO to have an overall set of terms and conditions mitigating the risks of delay in services/goods and quality of goods leading to financial loss and possible poor reputation.
- Procurement training is provided to all relevant members of staff, and Members, where applicable. This helps reduce the risk of non-compliance with CSOs and OJEU requirements

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

Procurement

- The procurement guidance be updated to state that the budget holder should check and ensure that sufficient budget is in place to cover the whole life spend of the procurement. This helps reduce the risk of inadequate budget for the entire life of each procurement.

- A central repository is used to keep all quotations received for contracts/work. This would improve document management and efficiency in relation to document retrieval reducing the risk that contract standing orders are not adhered to and best value/VFM cannot be demonstrated.

Contract management

- Contracts are checked by Finance for any notice periods that need to be applied and these are included on records held by Finance. I.e. the internal version of the contract register. Currently this check does not occur which would help reduce the risk of contracts being terminated not in accordance with the contract terms.
- Contract Standing Orders are amended to include a specific section on contract variations around the lines of - All requests to suppliers to amend any contract or requirement must be made in writing and must include authorisation at the same level as the original instruction or at a higher level if the level of expenditure exceeds the original authorisation levels. When the Purchase Order has been issued, any changes in the requirement must be notified to the supplier in writing by an amendment to the Purchase Order and if relevant a Contract Variation.
- A post implementation review (PIR) is undertaken of larger scale contracts, the level at which these PIRs are undertaken to be decided by Management team , taking into account the value of contract and risk associated with it. PIRs provide a method for the authority to learn lessons for future procurements/contracts and helps to reduce the risk that similar mistakes happen again.
- Management team minutes to include confirmation of what was concluded from the analysis of spend and if any further actions are required to address any issues identified. Currently, the minutes just state that the analysis of spend was reviewed without any conclusion.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which none remain outstanding.

Assurance Review of Corporate Governance and Risk Management

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Risk Management	0	0	1	2
Governance arrangements for decision making	0	0	0	0
Accountability and monitoring of performance	0	1	0	3
Total	0	1	1	5

SCOPE

The objective of the audit is to review the adequacy, effectiveness and efficiency of the systems and controls in place over Corporate Governance and Risk Management.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of one 'important' and one 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised five '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.
- The previous audit of Corporate Governance and Risk Management also concluded in a 'Reasonable' assurance opinion, having raised two 'important' and five 'needs attention' recommendations. This indicates a positive direction of travel.

POSITIVE FINDINGS

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

Risk Management

- The Risk Management Policy, which includes risk prioritisation/risk matrix and risk tolerance levels, provides an overarching framework for the authority's risk management process, including the rules and standards for managing strategic and operational risk, and guides staff in assessing, monitoring and managing risk on a day-to-day basis.
- There is a specific page available on the authority's intranet (SharePoint) which is dedicated to risk management. This enables staff to have access to the current Corporate Risk Register and Risk Management Policy.
- The authority has now rationalised and streamlined its strategic risks which were 22 in total. The new approach to risk management now includes scope for both strategic/corporate risks and operational/Director risks which has resulted in a Corporate Risk Register comprised of 10 risks. This provides a more manageable amount at this level resulting in members and management team focusing attention on the key risks which may adversely affect the achievement of the authority's strategic priorities.

Governance arrangements for decision making

- The Monitoring Officer oversees the decision-making process and attends all full Broad Authority committee meetings. This helps ensure that decisions are made in accordance with the constitutional documents and councillors and officers conduct is in adherence to the code of conducts.

Accountability and monitoring of performance

- An annual business plan is published on the authority's website containing the strategic priorities of the authority. This underpins the 2017 - 2022 Broads Plan, and clearly highlights the priorities in which the Broad Authority are lead partner for. This helps demonstrate part of the 'golden thread' i.e. how the performance of the strategic priorities are aligned to the main corporate plan of the authority.
- Progress on all 2019/20 Broads Plan objectives are reported to the full Broads Authority on a six-monthly basis and published on the website. The Authority's smaller set of headline strategic priorities are reported to the full Broads Authority each time it meets. This facilitates regular updates to the executive body responsible for decision taking and overseeing all strategies, policies and priorities of the Authority

ISSUES TO BE ADDRESSED

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

Accountability and monitoring of performance

- The 2019/20 National Park Authority (NPA) family indicator composite data is formally reported to Management Team to review comparison data with the national park family and take further action as required, to address any adverse areas of performance. Going forward, each set of annual family indicator composite data is reported to management team. This should include reviewing whether a meaningful target can be set for each indicator. This helps reduce the risk that the Broads Authority is not capitalising on its strengths and not focussing on any areas of weakness/adverse performance.

The audit has also highlighted the following areas where one 'needs attention' recommendation has been made.

Risk Management

- The Operations Directorate risk register be completed as part of the Individual Performance Preview (IPR) process. This helps to mitigate the risk that the Corporate Risk Register does not take into account any directorate risks requiring escalation to the corporate level.

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

Risk Management

- A specific risk appetite statement be defined within the Risk Management Policy, which complements the risk tolerance levels. This would help provide a more definite basis over the level of risk the authority is prepared to accept, and which risks require additional action/mitigation.

- In addition to the risks being scored as initial (before any existing controls/mitigation being applied, this is the inherent risk) and revised (after existing controls/mitigation, this is the current/residual risk), a target risk score is assigned. This clearly shows which risks are being managed to within the risk appetite on existing controls and those risks which require additional mitigation. This helps reduce the chances of risks being misunderstood or not properly mitigated in line with the risk tolerance of the Authority.

Accountability and monitoring of performance

- The website link to the six-monthly newsletters, in future Annual Business Plans be checked to ensure this link is up to date and correct and links to the correct page on the Broads Authority Website.
- Annual family indicator outturn data is published on the BA website which should include reviewing whether a meaningful target can be set for each indicator for which the Broads authority is the data source.
- Consideration is given to whether the state of the park indicators, for which the Broads Authority is the data source for, can be collected annually and reported in the annual business planning process.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which two remain outstanding (recommendation numbers 3 and 5) which relate to ascertaining feedback on the Risk Management process and identifying any training needs at all levels across the authority; and Corporate Risk Register reports to the Audit and Risk Committee containing an explanation of risks that have changed from the previous register. These were discussed with management and revised deadline dates agreed.

Other points noted

The audit of 'Governance arrangements for decision making' was limited to a high-level review due to the outcomes from the authority's legal advisers (Birketts Solicitors) review of the constitutional documents, not being received prior to the audit taking place.

It was not possible to check if the Corporate Risk Register (CRR) is being reviewed by the Audit and Risk Committee (ARC) and Management Team twice yearly, because the revised CRR was first reported to the ARC in November 2019 and therefore the next report is not yet due.

APPENDIX 4 – AUDIT RECOMMENDATIONS

			Completed bt 01/04/2019 to 31 March 2020			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	Outstanding	Priority 1	Priority 2	Priority 3
2018/19 Internal Audit Reviews												
BA1901	Corporate Governance and Risk Management	Reasonable		2	3							
BA1904	Disaster Recovery	Reasonable		1	4							
BA1903	Branding	Reasonable			4			2				
2019/20 Internal Audit Reviews												
BA2001	HLF External Funding	Reasonable		2	3		1					
BA2003	Procurement	Reasonable		3	1		1	1				1
BA2004	Corporate Governance and Risk Management	Reasonable									1	1
TOTALS			0	8	15	0	2	3	0	0	1	2

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Status	Latest Response
BA1903 Branding	Recommendation 2: The Broads Authority Communications Policy be updated to include the roles and responsibilities for overseeing management of correct branding. This should be included within a separate branding section which the policy does not currently have.	3	Agreed	Head of Communications	31/10/2019	30/09/2020	Outstanding	The new communications strategy has been delayed by COVID-19 comms activity. Although many elements of the strategy have been completed, We anticipate it will be in place by the end of September 2020
BA1903 Branding	Recommendation 5: A review and update of the communications page on the authority's intranet be undertaken once the national Parks branding strategy and associated documents, including the local broads national park strategy and Broads Authority Communications Policy, are finalised.	3	Agreed	Head of Communications	31/10/2019	30/09/2020	Outstanding	Awaiting completion of the new communication strategy (see BA1903 above)
BA2001 HLF - External Funding	Recommendation 1: The Broads Authority Business Continuity Plan is reviewed and updated to take into account the recent organisational re-structure and to ensure major projects such as the WMM Project are provided for.	2	Agreed	Head of Governance	31/12/2019	30/08/2020	Outstanding	The Business Continuity Plan has been updated and will be considered by Management Team in July 20 before the arrangements are finalised and put in place. The Corporate Risk Register (previously named Strategic Risk Register) has also been updated, to include staffing contingency plans for each Directorate in the event of key staff leaving the Authority. A cross reference to these arrangements in the BCP will be added.

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Status	Latest Response
BA2003 Procurement	Recommendation 4: A procurement project/contract risk assessment is produced, and referred to in the Procurement Strategy, to score each project prior to the commencement of the procurement process. This is issued to assess the type of procurement activity undertaken, i.e. framework, partnership arrangements.	2	Agreed.	Chief Finance Officer	31/03/2020	31/07/2020	Outstanding	Draft strategy ready for approval by MT, updated to July ARC
BA2003 Procurement	Recommendation 6: To consolidate the standard terms document with the contract conditions outlined in the CSOs to have an overall set of terms and conditions. These should be consolidated in conjunction with the Broads Authority's legal advisor and included within the CSOs.	3	Agreed.	Chief Finance Officer	20/03/2020	30/07/2020	Outstanding	Templates drawn up with Birketts, currently being finalised, Update to end of July 2020.

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 Audit and Risk Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2019/20 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 2020. 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 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.