

Internal Audit Strategic and Annual Plans 2018/19
Report by Head of Internal Audit

Summary:

This report provides an overview of the stages followed prior to the formulation of the Internal Audit Plan for 2018/19.

The Annual Internal Audit Plan serves as the work programme and initial terms of reference for the Authority's Internal Audit Services Contractor, TIAA Ltd, and provide the basis upon which the Head of Internal Audit will subsequently give an Annual Audit Opinion for 2018/19.

Recommendation:

The Committee is requested to approve:

- (i) The Internal Audit Strategy for 2018/19; and
- (ii) The Annual Internal Audit Plan for 2018/19.

The Committee is requested to note:

- (iii) The Performance Management measures for the Internal Audit Contractor.

1 Introduction

1.1 The Authority is required by the Accounts and Audit Regulations 2015 to ensure "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 are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

1.3 The formulation of the Annual Internal Audit Plans for 2018/19 is described in the attached report, and the resulting plan contained therein.

Background papers:	Nil
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Date of Report:	18 February 2018
Broads Plan Objectives:	None
Appendices:	Internal Audit Plan 2018/19

Eastern Internal Audit Services



BROADS AUTHORITY

Internal Audit Plans 2018/19

Responsible Officer: Head of Internal Audit

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

2. AUDIT CHARTER

- 2.1 The Internal Audit Charter (the Charter) was developed as part of the planning process in 2014/15 and incorporated the requirements of the PSIAS, this was updated in 2015/16 to more accurately reflect the working arrangements with the Internal Audit Contractor – TIAA Ltd.
- 2.2 The Charter was updated in 2017 to also reflect the updates made, the new Internal Professional Practices Framework (IPPF) and PSIAS – and in particular the mission statement and core principles. The Charter now also more explicitly includes reference to the

mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards.

- 2.3 There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter is therefore reviewed annually by the Head of Internal Audit to confirm its ongoing validity and completeness, and presented to the Section 17 Officer, Senior Management and the Financial Scrutiny and Audit Committee every 2 years, or as required, for review.
- 2.4 As part of the review of the Audit Charter the Code of Ethics are also reviewed by the Head of Internal Audit, and it is ensured that the Internal Audit Services contractor staff, as well as the Head of Internal Audit adhere to these, specifically with regard to; integrity, objectivity, confidentiality and competency. Formal sign off to acceptance of the Code of Ethics is retained by the Head of Internal Audit.

3. INTERNAL AUDIT STRATEGY

- 3.1 The purpose of the Internal Audit Strategy (**see Appendix 1**) is to confirm:
 - How internal audit services will be delivered;
 - How internal audit services will be developed in accordance with the internal audit charter;
 - How internal audit services links to organisational objectives and priorities; and
 - How the internal audit resource requirements have been assessed.

4. ANNUAL INTERNAL AUDIT PLAN

- 4.1 As agreed in prior years the Broads Authority internal audit plan is revisited on an annual basis to ensure that this is both responsive and reflective of the developments, new risks, emerging issues and any other changes on an annual basis.
- 4.2 The annual internal audit plan is attached at Appendix 2, the first section highlights the areas being reviewed in the forthcoming financial year, with the number of days identified for each review, the quarter during which the audit will take place and a brief summary / purpose of the review.
- 4.3 The second section of the plan confirms the audits that have been undertaken in previous years and the assurance opinion awarded on conclusion of the review, alongside areas for consideration in future financial years, thus ensuring that awareness is maintained of the services provided by the Authority. This approach will also continue to ensure that sufficient coverage is provided to enable the Head of Internal Audit to provide an opinion at financial year end.
- 4.4 It is also worth noting that IT audit coverage is reviewed every two years, as due to the size of the audit plan this enables other service areas to be regularly reviewed.
- 4.5 The key controls & assurance audit and the corporate governance & risk management audits will continue to be undertaken on an annual basis due to the importance of these areas in determining the adequacy and effectiveness of the Authority's framework of governance, risk management and control, which informs the Head of Internal Audit Annual Opinion.

- 4.6 The annual internal audit plan for 2018/19 totals 36 days, encompassing four assignments, with audit verification work concerning audit recommendations implemented to improve the Authority's internal control environment carried out at year end.
- 4.7 In addition the Head of Internal Audit role will continue to be provided by South Norfolk Council, the key roles include; developing the annual internal audit plan, quality reviewing the outcomes of the work undertaken by the contractor (TIAA Ltd) & ensuring that this meets the contract requirements, providing an annual report and opinion to the Authority, ensuring that the Committee continues to follow best practice through the self-assessment exercise and providing training as requested to new members of the Committee.

5. PERFORMANCE MANAGEMENT

- 5.1 The new Internal Audit Services contract includes a suite of key performance indicators (**see Appendix 3**) against which the contractor will be reviewed on a quarterly basis. There are a total of 11 indicators, over 4 areas.
- 5.2 There are individual requirements for performance in relation to each indicator; performance will be assessed on an overall basis as follows:
- 9-11 KPIs have met target = Green Status.
 - 5-8 KPIs have met target = Amber Status.
 - 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed and agreed with the contractor to ensure that appropriate action is taken.

- 5.3 Performance in relation to these indicators will be reported to the Committee as part of the Annual Report and Opinion.

APPENDIX 1 – INTERNAL AUDIT STRATEGY

EASTERN INTERNAL AUDIT SERVICES THE BROADS AUTHORITY

INTERNAL AUDIT STRATEGY FOR 2018/19

1. Introduction

- 1.1 The Internal Audit Strategy is a high-level statement of;
- how the internal audit service will be delivered;
 - how internal audit services will be developed in accordance with the internal audit charter;
 - how internal audit services links to the organisational objectives and priorities; and
 - how the internal audit resource requirements have been assessed.

The provision of such a strategy is set out in the Public Sector Internal Audit Standards (the standards).

- 1.2 The purpose of the strategy is to provide a clear direction for internal audit services and creates a link between the Charter and the annual plan.

2. How the internal audit service will be delivered

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

3. How internal audit services will be developed in accordance with the internal audit charter

3.1 Internal Audit objective and outcomes

- 3.1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.1.2 The outcomes of the internal audit service are detailed in the Internal Audit Charter and can be summarised as; delivering a risk based audit plan in a professional, independent manner, to provide the Authority with an opinion on the level of assurance it can place upon the internal control environment, systems of risk management and corporate governance arrangements, and to make recommendations to improve these provisions, where further development would be beneficial.
- 3.1.3 The reporting of the outcomes from internal audit is through direct reports to senior management in respect of the areas reviewed under their remit, in the form of an audit report. The Financial Scrutiny and Audit Committee and the Section 17 Officer also receive:

- The Audit Plans Report, which is risk based and forms the next financial year's plan of work; and
- The Annual Report and Opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.2 Internal Audit Planning

- 3.2.1 A risk-based internal audit plan (RBIA) is established in consultation with senior management that identifies where assurance and consultancy is required.
- 3.2.2 The audit plan establishes a link between the proposed audit areas and the priorities and risks of the Authority taking into account:
- Stakeholder expectations, and feedback from senior and operational managers;
 - Objectives set in the strategic plan and business plans;
 - Risk maturity in the organisation to provide an indication of the reliability of risk registers;
 - Management's identification and response to risk, including risk mitigation strategies and levels of residual risk;
 - Legal and regulatory requirements;
 - The audit universe – all the audits that could be performed; and
 - Previous Internal Audit plans and the results of audit engagements.
- 3.2.3 In order to ensure that the internal audit service adds value to the Authority, assurance should be provided that major business risks are being managed appropriately, along with providing assurance over the system of internal control, risk management and governance processes.
- 3.2.4 Risk based internal audit planning starts with the Authority's Business Plan, linking through to the priority areas and the related high-level objectives. The focus is then on the risks, and opportunities, that may hinder, or help, the achievement of the objectives. The approach also focuses on the upcoming projects and developments for the Authority.
- 3.2.5 The approach ensures; better and earlier identification of risks and increased ability to control them; greater coherence with the Authority's priorities; an opportunity to engage with stakeholders; the Committee and Senior Management better understand how the internal audit service helps to accomplish its objectives; and this ensures that best practice is followed.
- 3.2.6 The key distinction with establishing plans derived from a risk based internal audit approach is that the focus should be to understand and analyse management's assessment of risk and to base audit plans and efforts around that process.
- 3.2.7 Consultation with the Section 17 Officer and Senior Management takes place through specific meetings during which current and future developments, changes, risks and areas of concern are discussed and the plan amended accordingly to take these into account.
- 3.2.8 The outcome of this populates the annual internal audit plan, which is discussed with and approved by Management Team prior to these being brought to the Financial Scrutiny and Audit Committee. In addition, External Audit is also provided with early sight of the plans.

3.3 Internal Audit Annual Opinion

3.3.1 The annual opinion provides Senior Management and the Financial Scrutiny and Audit Committee with an assessment of the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.3.2 The opinion is based upon:

- The summary of the internal audit work carried out;
- The follow up of management action taken to ensure implementation of agreed action as at financial year end;
- Any reliance placed upon third party assurances;
- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
- The Annual Review of the Effectiveness of Internal Audit, which includes;
 - A statement on conformance with the standards 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.

3.3.3 In order to achieve the above internal audit operates within the standards and uses a risk based approach to audit planning and to each audit assignment undertaken. The control environment for each audit area reviewed is assessed for its adequacy and effectiveness of the controls and an assurance rating applied.

4. How internal audit services links to the organisational objectives and priorities

4.1 In addition to the approach taken as outlined in section 3.2 (Internal Audit Planning), which ensures that the service links to the organisations objectives and priorities and thereby through the risk based approach adds value, internal audit also ensure an awareness is maintained of local and national issues and risks.

4.2 The annual audit planning process ensures that new or emerging risks are identified and considered at a local level. This strategy ensures that the planning process is all encompassing and reviews the records held by the Authority in respect of risks and issue logs and registers, reports that are taken through the Authority Committee meetings, and through extensive discussions with senior management.

4.3 Awareness of national issues is maintained through the contract in place with the external internal audit provider through regular "horizon scanning" updates, and annually a particular focus provided on issues to be considered during the planning process. Membership and subscription to professional bodies such as the Institute of Internal Auditors and the CIPFA on-line query service, liaison with External Audit, and networking, all help to ensure developments are noted and incorporated where appropriate.

5. How internal audit resource requirements have been assessed

5.1 Through utilising a contractor the risk based internal audit plan can be developed without having to take into account the existing resources, as you would with an in-house team, thus ensuring that audit coverage for the year is appropriate to the Authority's needs and not tied to a particular resource.

- 5.2 That said a core team of staff is provided to deliver the audit plan, and these staff bring with them considerable public sector knowledge and experience. These core staff can be supplemented with additional staff should the audit plan require it, and in addition specialists, e.g. computer auditors, contract auditor, fraud specialists, can be drafted in to assist in completing the internal audit plan and focusing on particular areas of specialism.
- 5.3 All audit professionals are encouraged to continually develop their skills and knowledge through various training routes; formal courses of study, in-house training, seminars and webinars. As part of the contract with TIAA Ltd the contractor needs to ensure that each member of staff completes a day's training per quarter.

APPENDIX 2 – ANNUAL INTENAL AUDIT PLAN

Audit Area	No. of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Summary / purpose of audit
Annual Opinion audits						
Corporate Governance and Risk Management	5			5		The Head of Internal Audit places reliance on the regular reports that are provided to FSAC on the Authority's risks, this review will look at the processes leading up to these reports to ensure that risk is well managed, monitored and reported on. The governance element of this audit will revisit the GDPR audit findings from the 2017/18 audit review, to provide assurance that the Authority remains on track.
Key Controls and Assurance Framework	15			15		This audit looks at the fundamental systems s 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.
Service Area audits						
Branding	8				8	The audit will review the links with District Councils, and look at the related strategies, policies and procedures and the branding criteria.
Disaster Recovery	8				8	Disaster Recovery has not been reviewed for quite some time and the back-up servers are currently being moved to the dockyard and the location within which these will sit is currently being refitted to accommodate these at the required standard. As a result of this the DR plan will be updated and communicated to staff. An audit will review this post the move to ensure that the appropriate controls are in place.
Total number of days	36	0	0	20	16	

Audits Previously undertaken			Future areas for consideration for audit review		
Service area audits			Branding - 2018/19 audit in quarter four		
Partnership Working	2009/10	Limited	Procurement - 2019/20 audit in quarter two		
Fens Ecological Project	2009/10	Reasonable	Peer Review Action Plan - member working group leading		
Planning	2011/12	Reasonable	HLF and National Parks Partnership - to be revisited in future years		
Procurement	2013/14	Reasonable	Project and Programme Management - part of HLF audits		
Consultation Activities and partnership provisions	2014/15	Reasonable			
Planning	2015/16	Reasonable			
External Funding - HLF Bid and National Parks Partnership	2016/17	Reasonable			
Port Marine Safety Code*	2017/18	Reasonable			* this is a 3 yearly review and is next due in 2020/21
Asset Management	2017/18	Reasonable			
IT Audits					
Disaster Recovery	2008/09	Limited			
IT Governance and Strategy	2010/11	Reasonable			
Toll Income Application Review	2011/12	Limited			
Network Security	2013/14	Limited			
End User Controls	2014/15	Reasonable			
Anti-Virus, Malware, Backups & Firewall Administration	2016/17	Reasonable			

APPENDIX 3 – PERFORMANCE MEASURES

Area / Indicator	Target
<u>Audit Committee / Senior Management</u> 1. Audit Committee Satisfaction – measured annually 2. Chief Finance Officer Satisfaction – measured quarterly	Adequate Good
<u>Internal Audit Process</u> 3. Each quarters audits completed to draft report within 10 working days of the end of the quarter 4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter 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) 6. Compliance with Public Sector Internal Audit Standards 7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	100% 100% 100% Full 100%
<u>Clients</u> 8. Average feedback score received from key clients (auditees) 9. Percentage of recommendations accepted by management	Adequate 90%
<u>Innovations and Capabilities</u> 10. Percentage of qualified (including experienced) staff working on the contract each quarter 11. Number of training hours per member of staff completed per quarter	60% 1 day