

Internal Audit Annual Report and Opinion 2017/18

Report by Head of Internal Audit

Summary:

This report provides the Authority with an Annual Report and Opinion for 2017/18, 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 2018.
- 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 2017/18.
- 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 2017/18 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 2017/18, 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 complaint with CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.

These findings therefore indicate that reliance can be placed on the opinions expressed by the 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:	14 June 2018
Broads Plan Objectives:	None
Appendices:	Annual Report and Opinion 2017/18

Eastern Internal Audit Services



BROADS AUTHORITY

Annual Report and Opinion 2017/18

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 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 2017/18, 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 Management Team and key stakeholders and then approved by the Financial Scrutiny and Audit Committee at its meeting on 7 February 2017. 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 in relation to the framework of governance, risk management and controls at the Broads Authority is **reasonable**, with all audits concluding with a reasonable opinion. We therefore have no Internal Audit considerations for the Annual Governance Statement.

It is worth noting that the Authority recently participated in a Peer Review, with the recommendations stating that the governance arrangements need to be reviewed to ensure that the structure is fit for the future. An action plan is in place to address this, with six proposals being progressed. The Head of Internal Audit will monitor progress over the forthcoming year and consider if further internal audit review is required.

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 Financial Scrutiny and Audit Committee approved the Annual Internal Audit Plan for 2017/18, which is summarised at **Appendix 1** to this report and totalled 38 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 Asset Management; and
- Port Marine Safety Code.

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

Asset Management

The review sought to provide insight into the management of the Broads Authority assets, with particular regard to: the policies and procedures that are in place, acquisitions and disposals, leases, maintenance and insurance, valuations and reconciliations to the fixed asset register.

The audit concluded with a reasonable assurance, with one important (priority two) and two needs attention (priority three) recommendations agreed with management. The important recommendation remains outstanding relating to the creation of a master record of building condition monitoring surveys, this action is now due to be completed by the end of July 2018. One needs attention action remains outstanding and is now due to be completed by end of September 2018, with the final needs attention recommendation now addressed.

Port Marine Safety Code

The objective of this review was to independently audit the Authority's Safety Management System, in line with the requirement of the Port Marine Safety Code (PMSC).

The audit concluded with a **reasonable** assurance, with four important and five needs attention recommendations agreed with management. Six of the recommendations have now been completed, with the final three (two important and one needs attention) due to be completed over the 2018/19 financial year.

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 **reasonable** assurance and two important and two needs attention recommendations were agreed with management on conclusion of the review, one needs attention action remains outstanding and will be completed by the end of July 2018.

Corporate Governance and Risk Management

The audit focused on the Corporate Governance arrangements for 2017/18, with the specific focus of the review being the General Data Protection Regulation (GDPR) which comes into force on 25 May 2018.

The audit concluded with a **reasonable** assurance, with three important and two needs attention recommendations agreed with management. Four recommendations have been addressed by management with one important recommendation outstanding, which is now due to be completed by end of June 2018. This relates to ensuring that the data asset register is finalised to take account of the ICO checklists.

3.4 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 21 recommendations raised by TIIA Ltd in 2017/18, 14 have been actioned by management, four are outstanding and three are not yet due for implementation.

The following table is the overall summarised year end position, with an overall summary and the management responses for the outstanding recommendations provided at **Appendix 4**.

Number raised	21	
Complete	14	67%
Outstanding	4	19%
Not Yet Due	3	14%

The six recommendations that required action from the 2016/17 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 positive to note that prompt action has been taken by management to address the majority of recommendations that have been made within the financial year.

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 2017/18. 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 the Financial Scrutiny and Audit Committee.

Two improvement points were raised in relation to the assessment. The first relates to updating and documenting current risks pertinent to delivery of the TIAA contract. The second relates to the Internal Audit Manager carrying out yearly deep dive assurance exercises on a sample of TIAA audit files to give assurance that the audit procedures are being followed in line with the PSIAS. We will complete these actions as recommended by the assessors over the next financial year.

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	Good	TBC
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved

<u>Internal Audit Process</u>				
3. Each quarters audits 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%	100%	Achieved - All quarterly reports received with 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)		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, 4 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 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 28 March 2018, 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 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 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 2017/18

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	5	4	0	1	0	0
Fundamental Financial Systems							
Key Controls and Assurance	Reasonable	4	3	0	0	1	0
Service area audits							
Asset Management	Reasonable	3	1	0	1	1	0
Port Marine Safety Code	Reasonable	9	6	0	0	0	3
Total		21	14	0	2	2	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.	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 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
Annual Opinion Audits				
Corporate Governance and Risk Management	Substantial Review relates to 2014/15	Reasonable	Reasonable	X
Governance	Reasonable			
Fundamental Financial Systems				
Key Controls and Assurance Work	Reasonable	Reasonable	Reasonable	X
Procurement				
Services Area Reviews				
Consultation Activities and Partnerships Provisions				
External Funding - HLF Bid and National Parks Partnership		Reasonable		
Asset Management			Reasonable	
Port Marine Safety Code			Reasonable	
Branding				X
Planning	Reasonable			
IT Audits				
Toll Management Application				
Network Security				
End User Controls				
Disaster Recovery				X
Virus Protection/Spyware, Data Backup and Data Centre controls		Reasonable		

Assurance Review of Asset Management

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies and procedures	0	0	1	0
Leases	0	0	1	0
Maintenance and insurance	0	1	0	0
Total	0	1	2	0

SCOPE

This review will provide insight into the management of the Broads Authority assets, with particular regard to: the policies and procedures that are in place, acquisitions and disposals, leases, maintenance and insurance, valuations and reconciliations to the fixed asset register.

RATIONALE

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

POSITIVE FINDINGS

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

- The Authority has an asset management strategy which sets out a clear strategy for managing its property portfolio.
- A fixed asset register is maintained by the Finance Department and regularly updated.
- Asset acquisitions and disposals are made in line with the asset management strategy and financial regulations.
- Rent is invoiced on a regular basis and action is taken to collect rent arrears.
- A planned maintenance programme has been created for all of the Authority's property assets.
- Regular inspections and maintenance of moorings is carried out to ensure that they are kept in a good state of repair.
- Assets are adequately covered by an extant insurance policy.
- Assets are revalued on a five year rolling programme.
- The fixed asset register is reconciled to other asset records and to the general ledger on an annual basis.

ISSUES TO BE ADDRESSED

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

Maintenance and insurance

- A central database of property condition surveys is created, to reduce the risk of surveys not being conducted at the required time and to ensure that the condition of the property is appropriately maintained.

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

Policies and procedures

- Written guidance or procedural notes is produced for the asset management process, to reduce the risk of inconsistent practices being applied.

Leases

- The Authority works with partners to improve the timescales for signing lease agreements, to reduce the risk of lease agreements not being concluded in the required timeframe.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Other points of note

The Authority is developing its Document Management System (DMS) as the complete consolidated record of assets and this is considered to be fit for purpose once it is finished, as it will contain the majority of the information about each asset. However, progress on updating records on the system is slow due to the lack of available resources and it is expected to take another year before the records on DMS are complete.

Previous audit recommendations

The previous review of asset management was undertaken in the 2008/09 financial year, concluding with an adequate (reasonable) assurance level. No recommendations raised remain outstanding. Asset management is included as a control area within the annual key controls audit and the 2016/17 audit (BA1704) raised no recommendations in relation to this area.

Assurance Review of Port Marine Safety Code

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Governance*	0	4	4	0
Hazards**	0	0	1	0
Total	0	4	5	0

*Governance includes the areas of Roles and Responsibilities; Consultation; Management of the Navigation; and Monitoring and Auditing. ** This recommendation also applies to the area of Risk Assessment.

No weaknesses were found with regard to the areas of Conservancy, Pilotage; Marine Services and Emergency Response.

SCOPE

The objective of the audit is to undertake an independent audit of the Authority's Safety Management System, in line with the requirement of the Port Marine Safety Code (PMSC).

RATIONALE

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

POSITIVE FINDINGS

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

- The Designated Person (DP) (Head of Safety Management) has direct access to the Duty Holder, which is the full Broads Authority. There is a standing item on every Broads Authority meeting agenda and DP has direct access to the lead member for safety, who also chairs the Navigation Committee and the Boat Safety Management Group (BSMG).
- The Harbour Masters National Occupational Standards have been reviewed and a responsibility matrix has been produced, which details those posts within the Authority where certain harbour master functions reside, such as the Director of Operations and the Head of Safety Management.
- There is a standing safety committee meeting, namely the BSMG, for which terms of reference include providing advice on the on-going maintenance and delivery of the Safety Management System (SMS) in a timely fashion.
- An annual training plan is in place for the Operation Directorate, which includes the key officers involved with the SMS.
- The approach to consultation is contained within section 4 of the SMS, which describes how consultation is undertaken with the Navigation Committee, BSMG, Broads Forum and Broads Local Access Forum. In addition, consultation is undertaken with a number of stakeholders that include other harbour authorities, statutory/legislative bodies, special interest groups and local groups.
- The Norfolk and Suffolk Broads Act 1988 gives the Broads Authority the power to make byelaws “for the good management of the navigation area”. The SMS and Broads Authority website is up to date with the latest set of byelaws.
- A Hydrographic Policy audit has been undertaken which is due to be reported to the BSMG and there is a programme of hydrographic surveys in place which feeds into the dredging programme. The results of the surveys are also placed on the Broads Authority website so that this information can be viewed by users of the broads.
- The 2015/16 hazard review log is appended to the SMS and is reviewed every three years by way of a full stakeholder review. This is also reviewed on an ongoing basis by an annual and six monthly review and report to the BSMG of incidents that have occurred. Anything significant is also reported to the BSMG, in a timely manner, such as Hazard No. 26 Obstructions to navigation, which was reviewed at the 27 February 2017 BSMG.
- The Head of Safety Management monitors the Marine Accident Investigation Branch (MAIB) website and is sent reports from a variety of sources including the UK harbour masters and Boat Safety Scheme.

ISSUES TO BE ADDRESSED

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

Governance

- To arrange for a peer review to be undertaken of the Broads Authority's Safety Management System (SMS) by the Canal and River Trust as a reciprocal arrangement in between external audit visits. This will help to mitigate the associated risks with safety management and contribute to assessing the performance of the SMS through benchmarking against other similar organisations.
- A PMSC dedicated page is developed on the Authority's website, to include a performance dashboard, and a link to SMS, to reduce the risk that the PMSC is not complied with and performance of the PMSC is not transparent.
- The Authority's annual report should refer to the PMSC, including compliance with this and the standard of performance, cross referenced to the performance dashboard to help mitigate the risk that the PMSC is not complied with and performance of the PMSC is not transparent.
- To update the Authority's SMS to include reference to the commitment of the Broads Authority to comply with the standards laid down within the PMSC; reference be made to the harbour revision order being progressed for the transfer of Mutford Lock to the Authority; inclusion of an overall section on contractors and their obligations in respect of the PMSC; and the general direction and special direction policies as agreed with the Navigation Committee. Inclusion of relevant policies and harbour orders mitigates the risk that the Authority's powers and procedures are not transparent.

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

Governance

- To formalise the reporting of internal audits by the Head of Safety Management to the appropriate committees / groups, e.g. the BSMG, including the annual schedule / internal audit programme of audits. This will help to mitigate the risk that some areas may not be in compliance.
- The PMSC is included as a standard item in the Authority's officer induction pack / process to reduce the risk that staff undertake tasks that are not in compliance with the code.
- Briefings given to the Navigation Committee and BSMG on the risk assessment process, hazard identification and assessment and the ALARP principle are documented and recorded in the minutes. Briefing packs, in relation to the risk assessment process, hazard identification and assessment and the ALARP principle, are made available to all new appointees to the Navigation Committee and the BSMG. This will help reduce the risk that misinformed decisions are made resulting in inadequate port marine safety.
- A timescale is finalised for the roll out of the document management system in relation to the safety management team, to mitigate the risk that out of date or incomplete documents are used.

Hazards

- To review the SMS risk categories / criteria of 'people', 'environment' and 'assets' against the four criteria of: 'life, environment, business (reputation) and damage (port and shipping)' as contained in the latest PMSC Guide to Good Practice, mitigating the risk that the consequences of risks/hazards are not appropriately assessed and mitigated as required.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Previous audit recommendations

The last independent audit was undertaken in September 2014 by BMT Isis (technical consultancy firm) with the report issued in December 2014, which was reported to the full Broads Authority on 15th May 2015. Of the six recommendations made within this audit report, three remain outstanding which relate to the use of a reciprocal arrangement with another harbour authority for external audit purposes; the status of each performance indicator to be clearly presented on a designated page on the Authority's website; and all new appointees to the Navigation Committee and the Boating Safety Management Group receive training on the risk assessment process, hazard identification and assessment and the ALARP principle. These have been superseded by recommendations raised within this audit, the control issues are still present but the recommendations have been expanded and modified to reflect the testing results and current situation.

Assurance Review of Key Controls and Assurance

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Budgetary control	0	0	1	0
Accounts receivable	0	1	1	0
Accounts payable	0	1	0	1
Total	0	2	2	1

No recommendations have been raised in respect of treasury management, general ledger, asset management, control accounts, cash and banking, payroll or toll income.

SCOPE

This audit looks at the fundamental systems that feed into the statement of accounts to provided assurance on the key controls. The areas reviewed as part of this review 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 'Reasonable' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and two 'needs attention' recommendations being raised upon the conclusion of our work.
- This assurance opinion indicates that the overall level of control has not changed since the previous audit of Key Controls and Assurance in 2016/17, which also concluded in a 'reasonable' assurance opinion. However, while the overall opinion has not changed, fewer recommendations have been raised in this report which indicates a positive direction of travel.
- The audit has also raised one 'operational effectiveness matter', which sets out a matter 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.

POSITIVE FINDINGS

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

- All invoice payments require two stage authorisation, thereby ensuring that only accurate and approved payments are processed.
- Starters, leavers and amendments to the payroll are checked to ensure that they have been actioned correctly by the payroll provider, thus ensuring the Authority's payroll is accurately maintained.
- There is a clear audit trail of actions taken to recover unpaid tolls, ensuring that debt recovery follows a prescribed and effective process and with all monies due to the Authority being pursued / received.
- Toll payments can be checked on the Tolls Management System by Rangers in the field, reducing the Authority's costs for printing plaques.

ISSUES TO BE ADDRESSED

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

Accounts receivable

- Invoices are to be raised promptly upon receipt of invoice requisitions within Finance, so as to reduce delays in the Authority receiving payments.

Accounts payable

- Changes to supplier details are confirmed with the supplier, using existing contact details, to reduce the risk of fraudulent or erroneous payments being made.

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

Budgetary control

- The limit for reporting on variances identified through budget monitoring is reviewed and amended if necessary, to reduce the risk of potentially significant variances going unchallenged.

Accounts receivable

- The Scheme of Powers Delegated to Officers is updated to ensure that all job titles are up to date, thereby reducing the risk of confusion over the decision-making arrangements which could also lead to decisions being made by unauthorised members of staff.

Operational Effectiveness Matters

The operational effectiveness matter for management to consider relate to the following:

- Security permissions are amended to allow emails to be sent directly from Dimensions.

Other issues to note

Testing of expense claims identified one member's mileage claim that was not accompanied by a fuel receipt detailing the amount, including the VAT element. The Payroll and HR Coordinator stated that this has been a more widespread issue in the past with members now having been reminded of the requirement to provide VAT receipts, with the claim remaining outstanding until such time as a receipt *is* provided. The fixed asset register is only reconciled to the general ledger at year end. Therefore it was not possible to test this reconciliation for 2017/18 during the audit.

Previous audit recommendations The previous audit of Key Controls and Assurance, BA/17/04, was completed in February 2017. Seven recommendations were raised in the report, of which six have been confirmed as implemented. The outstanding recommendation relates to updating the toll procedure manual and a revised deadline of 31st March 2018 has been set for the completion of this recommendation.

Assurance Review of Corporate Governance

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
GDPR	0	3	2	1

SCOPE

The audit focused on the Corporate Governance arrangements for 2017/18, with the specific focus of the review being the General Data Protection Regulation (GDPR) which comes into force on 25 May 2018.

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 two 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised one 'operational effectiveness matter', 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.

POSITIVE FINDINGS

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

- A GDPR Compliance Plan has been produced which contains a number of actions to be taken to comply with GDPR requirements. This is monitored and updated by the GDPR Project Group set up in August 2017 to ensure GDPR compliance.
- The Solicitor and Monitoring Officer has been assigned as the authority's Data Protection Officer and is now a qualified GDPR practitioner having attended and successfully completed the GDPR practitioner course.
- The authority's privacy statements have been revised to include mandatory information in relation to GDPR requirements.
- Compulsory training sessions for staff have been held in respect of GDPR and further training is scheduled in March and April. Members training is also due to be arranged.

ISSUES TO BE ADDRESSED

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

- The authority's existing Information Retention Policy and the ICT Communications Policy (and any other policies, if relevant) to be reviewed and updated to include the approach to the technical and security measures in place and the ongoing review of those measures to ensure compliance with the GDPR is demonstrated. This mitigates the risk of non-compliance with the GDPR, specifically article 32 - security of processing and the new accountability principle in Article 5(2) to demonstrate compliance with the principles of the GDPR.
- The data asset register to be finalised so that all incomplete data fields are complete and the ICO checklists and template are taken into account. This thereby mitigates the risk that best practice is not followed which could lead to non-compliance with the GDPR.
- The GDPR compliance plan to be updated to include production of a light touch Data Protection Impact Assessment (DPIA) template; timeline for applying full DPIAs; and DPIA requirements being built into existing processes for new projects. This should reduce the risk that processes/data are not assessed sufficiently leading to non-compliance with the GDPR.

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

- The general privacy statement title heading - 'Your rights in relation to data processing including rights to access' to specifically state the right to erasure. This mitigates the risk that this right is overlooked by the general public/users of the website and the authority is not clearly demonstrating compliance in a transparent manner.
- The DPO to notify the Finance Scrutiny and Audit Committee (FSAC) that a review of the GDPR corporate risk will be undertaken at the end of March 2018 to ascertain if the risk is being mitigated as planned and to ascertain that the authority will be compliant by the time it comes into force on May. This helps reduce the risk that the authority will not be compliant with the GDPR when it comes into force on the 25 May 2018.

Operational Effectiveness Matters

The operational effectiveness matter, for management to consider relates to the following:

- To undertake a further review of existing processes/documentation in place in relation to the security element (article 32) of the GDPR once the new ICO guidance, to assist organisations in securing the personal data they hold with regards to the GDPR requirements, is published.

Other points noted

The authority has produced a GDPR Compliance Plan which has been agreed by management forum and is being monitored by the GDPR Project Group and the Data Protection Officer on an ongoing basis. This plan contains key actions and timescales to achieve compliance with the regulations by the 25 May 2018. Examples of these actions include institute review of all authority used databases with all departments required to report all datasets containing personal data of data subjects; compile Data Asset Register to include Location, type of personal data, identify legal basis for processing and who has access; update the Authority's Data and Information Retention Policy; decide whether there is the need for a Data Privacy Impact Assessment (DPIA) of any databases where high risk to the rights and freedoms of individuals; prepare GDPR compliant Data Protection Policy; and issue new terms and conditions (GDPR compliant) to contractors. Due to the compliance list being work in progress, no specific recommendations have been raised to complete the areas of work contained here.

APPENDIX 4 – AUDIT RECOMMENDATIONS

			Completed bt 01/04/2017 and 31/03/2018			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
2016/17 Internal Audit Reviews									0			
BA1701	External Funding	Reasonable		1					0			
BA1703	Corporate Governance & Risk Management	Reasonable		1	1				0			
BA1704	Key Controls & Assurance	Reasonable		2	1				0			
2017/18 Internal Audit Reviews												
BA1801	Asset Management	Reasonable			1		1	1				
BA1802	Port Marine Safety Code	Reasonable		2	4						2	1
BA1803	Key Controls & Assurance	Reasonable		2	1			1				
BA1804	Corporate Governance	Reasonable		2	2		1					
TOTALS			0	10	10	0	2	2	0	0	2	1

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Status	Latest Response
BA1801 Asset Management	Recommendation 1: A master record of building condition monitoring surveys is created, to provide assurance that all surveys are completed when required. Rationale and risk:	2	Conditioning monitoring is dependent on the IT work plan and priorities. Meeting to scope project and timescale to be undertaken by end of September 2017.	Asset Officer	30/09/2017	31/07/2018	Outstanding	Ready to go but some of the building managers requested a couple of changes to the system that would improve it for all concerned. It was decided to defer until the improvements were incorporated into the system.
BA1801 Asset Management	Recommendation 3: The Authority agrees timescales for completing lease agreements with key stakeholders to reduce delays.	3	Delayed responses from our current legal provider have been identified. This will be addressed when we go out to tender for Legal Services. Control over the lessee legal services are difficult to influence due to the size and type of their organisations.	Solicitor & Monitoring Officer	01/04/2018	30/09/2018	Outstanding	We are currently reviewing our legal services provision including which suppliers we use.
BA1804 Corporate Governance and Risk Management	Recommendation 2: The data asset register incomplete columns to be finalised and to take into account the ICO checklists for 'Documentation of processing activities - requirements' and 'Documentation of processing activities - best practice; and ICO documentation template for controllers.	2	Agreed.	Solicitor and Monitoring officer	30/04/2018	30/06/2018	Outstanding	This is still being worked on and revised date of end of June given.
BA1803 Key Control and Assurance	Recommendation 4: The Scheme of Powers Delegated to Officers is updated to remove outdated references to the Treasurer and Financial Advisor to the Authority and to replace them with current references including the Chief Financial Officer (Section 17 Officer).	3	Scheme of Powers to be updated and adopted by the Authority.	Solicitor and Monitoring officer	16/05/2018	30/07/2018	Outstanding	The Scheme of Delegated Powers has been reviewed by Management team. Will be taken to the Broads Authority meeting in July 2018.

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 2017/18 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 2018. 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.