

Internal Audit Strategic and Annual Plans 2017/18

Report by Head of Internal Audit Consortium

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

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 Internal Audit Consortium Manager will subsequently give an Annual Audit Opinion for 2017/18.

Recommendations:

- (i) The Committee is requested to approve:
 - The updated Internal Audit Charter
 - The updated Internal Audit Strategy for 2017/18
 - The Annual Internal Audit Plan for 2017/18.
- (ii) The Committee is requested to note:
 - 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 2017/18 is described in the attached report, and the resulting plan contained therein.

Background papers: None

Author: Emma Hodds, Internal Audit Consortium Manager
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Broads Pan Objectives: None

Appendices: APPENDIX 1 - Internal Audit Plan 2017/18

Eastern Internal Audit Services



THE BROADS AUTHORITY

Strategic and Annual Internal Audit Plans 2017/18

Responsible Officer: Emma Hodds – Internal Audit Consortium Manager

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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 new Internal Audit Contractor – TIAA Ltd.
- 2.2 There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter is therefore reviewed annually by the Internal Audit Consortium Manager 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.

- 2.3 The Charter has been recently been updated to now also reflect 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. The updated Charter is attached at **Appendix 1** to this report.
- 2.4 As part of the review of the Charter the Code of Ethics are also reviewed by the Internal Audit Consortium Manager, and it is ensured that the Internal Audit Services contractor staff, as well as the Internal Audit Consortium Manager adhere to these, specifically with regard to; integrity, objectivity, confidentiality and competency. Formal sign off to acceptance of the Code of Ethics is retained by the Internal Audit Consortium Manager.

3. INTERNAL AUDIT STRATEGY

- 3.1 The purpose of the Internal Audit Strategy (**see Appendix 2**) 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 Traditionally a Strategic Internal Audit Plan has been included to provide a comprehensive programme of review work over the forthcoming three years, with each year providing sufficient audit coverage to give annual opinions, which can be used to inform the organisation's Annual Governance Statement.
- 4.2 On review of the previous Strategic Plans during the audit planning for the 2016/17 financial year, it became apparent that the planned coverage does quite often change, for various reasons, and it had been decided that this approach will be amended for the Broads Authority to ensure that the internal audit plan is both responsive and reflective of developments, new risks, issues and any other changes on an annual basis.
- 4.3 The Annual Internal Audit Plan is attached at **Appendix 3**, 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.
- 4.4 The second section of the plan, confirms the audits that have been undertaken in previous years and the assurance opinions 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 give an annual opinion.
- 4.5 It is also worth noting that IT audit coverage will formally be reviewed every two years, as due to the size of the team and the work they have been completing this has happened by

default. In the year during which an IT audit is not undertaken this will enable another service area to be reviewed.

- 4.6 The key controls & assurance audit and the corporate governance & risk management audit 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 Annual Report and Opinion.
- 4.7 The Annual Internal Audit Plan for 2017/18 totals 38 days, encompassing four assignments, with audit verification work concerning audit recommendations implemented to improve the Council's internal control environment carried out at year end.
- 4.8 In addition the Internal Audit Consortium Manager will continue to provide the Role of the Head of Internal Audit to the Broads Authority, the key roles include; developing the annual internal audit plan, quality reviewing the outcomes of the work undertaken by the contractor (TIAA Ltd) and 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 required 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 5**) against which the new 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; however performance will be assessed on an overall basis as follows (for the first year):
 - 9-11 KPIs have met target = Green Status.
 - 5-8 KPIs have met target = Amber Status.
 - 4 or below have met target = Red Status.

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

- 6.3 Performance in relation to these indicators will be reported to the Committee as part of the Progress Reports and the Annual Report and Opinion, ensuring that Members are kept up to date on a regular basis.

EASTERN INTERNAL AUDIT SERVICES THE BROADS AUTHORITY

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, these provide a consolidated approach across the public sector thus ensuring continuity, sound corporate governance and transparency.
- 1.2 The Standards require all internal audit services to implement, monitor and review an internal audit charter (the charter); this formally defines the internal audit's purpose, authority and responsibility, and is a mandatory document.
- 1.3 The charter also displays formal commitment to and recognises the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards, i.e. the International Professional Practices Framework (IPPF).



- 1.4 The IPPF now also recognises the mission of internal audit which Eastern Internal Audit Services conforms to. The mission is; *to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*. Eastern Internal Audit Services will
- 1.5 The charter also:
 - Establishes the position and reporting lines of internal audit;
 - Provides unrestricted access;
 - Sets the tone for internal audit activities;

- Defines the nature and scope of internal audit services, in particular assurance and consultancy services; and
 - Sets out the nature and scope of assurance provided to other parties.
- 1.6 The charter is to be periodically reviewed and presented to Senior Management and the Board for approval. Therefore the charter will be reviewed annually by the Chief Audit Executive to confirm its ongoing completeness and validity, and presented to Senior Management and the Board every 2 years for review.
- 1.7 The Charter applies to all Authorities which are part of Eastern Internal Audit Services, currently; Breckland, Broadland, North Norfolk, South Holland and South Norfolk District Councils, Gt Yarmouth Borough Council and the Broads Authority.

2. Purpose, Authority and Responsibility

2.1 Purpose

- 2.1.1 Internal auditing is best summarised through its definition with the Standards, *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.
- 2.1.2 Internal audit will provide reasonable assurance to all organisations that are part of Eastern Internal Audit Services that necessary arrangements are in place and operating effectively, and to identify risk exposures and areas where improvements can be made.

2.2 Authority

- 2.2.1 The Accounts and Audit Regulations (England) 2015, states that the relevant body 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”*. The statutory requirement for internal audit is recognised in the Constitution of each Authority and the internal auditing standards in this regard are the Public Sector Internal Audit Standards.
- 2.2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Head of Internal Audit confirms that this person is responsible for the organisation’s internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. The requirements of this statement are fully adhered to by the Chief Audit Executive.

2.3 Responsibility

- 2.3.1 The responsibility for maintaining an adequate and effective internal audit to evaluate risk management, control and governance processes lies with each Authority’s Chief Finance Officer (the Section 17 Officer).
- 2.3.2 The Authority and its Members must be satisfied about the adequacy of the advice and support it receives from internal audit.
- 2.3.3 Internal audit is provided by Eastern Internal Audit Services, with the Chief Audit Executive responsible for ensuring the internal audit activity is undertaken in accordance with the definition of internal auditing, the code of ethics and the standards.

- 2.3.4 Senior management are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the Authority. Accountability for responding to internal audit rests with senior management who either accept and implement the recommendations, or formally reject it. Any advice that is rejected will be formally reported.

3. Key Relationships and Position in the Organisation

- 3.1 The standards require the terms 'Chief Audit Executive', 'Board' and 'Senior Management' to be defined in the context of the governance arrangements in each public sector organisation in order to safeguard the independence and objectivity of internal audit. The following interpretations are applied within Eastern Internal Audit Services.

3.2 Chief Audit Executive

- 3.2.1 The Chief Audit Executive is the Internal Audit Consortium Manager who provides the role of the Head of Internal Audit to all organisations part of the Eastern Internal Audit Services. The delivery of the annual internal audit plan, and any ad-hoc assignments is provided by an external contractor; TIAA Ltd since 1 April 2015. The Chief Audit Executive also manages this contract on behalf of all organisations.
- 3.2.2 The Internal Audit Consortium Manager reports functionally to the Board and administratively to the Director of Business Development at South Norfolk Council. In addition the Internal Audit Consortium Manager also reports administratively to the Section 17 Officer at each organisation (and also the Head of Finance at the Broads Authority).
- 3.2.3 The Internal Audit Consortium Manager also has a direct line of reporting and unfettered access to the Chief Executive, the Senior Management Team at each Authority and the Chair of the Audit Committee at each Authority.

3.3 Board

- 3.3.1 The 'Board' is the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting. At the Broads Authority this is the Financial Scrutiny and Audit Committee, whose responsibilities are discharged through the Constitution and explicitly referred to in the terms of reference.
- 3.3.2 This functional reporting includes;
- Approving the audit charter, audit strategy and annual plans; and
 - Receiving the Annual Report and Opinion of the Internal Audit Consortium Manager (which includes the outcomes of internal audit activity and management action in relation to agreed internal audit recommendations), alongside a conclusion as to the effectiveness of internal audit.
- 3.3.3 In addition the Financial Scrutiny and Audit Committee also; assesses its own effectiveness on an annual basis to ensure it meets best practice, receives reports in relation to relevant Policy / Strategy updates i.e. Fraud and will receive and oversee the results of external assessments of internal audit.

3.4 Senior Management

- 3.4.1 'Senior Management' is those responsible for the leadership and direction of the organisation, and are responsible for specific aspects of internal control, risk management

and governance arrangements. There is effective liaison between internal audit and senior management to ensure that independence remains, and provides for a critical challenge.

3.4.2 The Internal Audit Consortium Manager meets regularly with the Section 17 Officer and the Head of Finance, both formally and informally, to ensure organisational awareness is maintained and that good working relationships are in place. The formal arrangements facilitate discussion in relation to the delivery of the current internal audit plan to ensure it remains on track and is responsive to changes and emerging risks. The meeting also highlights any areas which require immediate attention, that are not in the current annual plan, and also areas for future consideration.

3.4.3 In addition the Internal Audit Consortium Manager meets with management team through the annual audit planning process to enable a risk based internal audit plan. These relationships are maintained throughout the year to ensure awareness of developments within service areas, to keep up to date, and to ensure internal audit involvement where necessary. These are key relationships to the effective delivery of internal audit and to ensure a value-added service is provided.

3.5 Other key relationships

3.5.1 There are other key relationships that are maintained which are important to the effective and efficient delivery of internal audit.

3.5.2 Regular liaison is maintained with External Audit to consult on audit plans, and to discuss matters of mutual interest. The external auditors have the opportunity to take account of the work of internal audit where appropriate.

3.5.3 Where appropriate internal audit will liaise with other internal audit providers, where shared arrangements exist. In such cases, a dialogue will be opened with the Chief Audit Executive to agree a way forward regarding the auditing of such shared services. This is to ensure an efficient and effective approach, and enable reliance on each other's outcomes. Where formal arrangements are entered into a protocol will be determined and agreed by both Chief Audit Executives.

3.5.4 Internal audit will also co-operate with all external review and inspection bodies that are authorised to access and evaluate the activities of the Authority, to determine compliance with regulations and standards. Assurances arising from this work will be taken into account where applicable.

4. Rights of Access

4.1 Internal audit, with strict accountability for confidentiality and safeguarding records and information, is authorised to have the right of access to all records, assets, personnel and premises and has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This access is full, free and unrestricted and is set out in each Authority's Constitution.

4.2 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

5. Objective and Scope

5.1 Assurance services is the primary role of internal audit services, which primarily feeds into the annual audit opinion on the adequacy and effectiveness of the Authority's framework of

governance, risk management and control, together with reasons if the opinion is unfavourable. This opinion covers the entire control environment of the Authority and not just the financial controls.

- 5.2 Internal audit also provides consultancy services, where required, which is advisory in nature and generally performed to facilitate improved governance, risk management and control.
- 5.3 It is management's responsibility to manage the risk of fraud and corruption; however internal audit will be alert to such risks in all the work that is undertaken. In addition the Internal Audit Consortium is either responsible for, or is consulted on, related policy / strategy. These include for example; Counter Fraud, Corruption and Bribery Strategy, Whistleblowing Policy and Anti-Money Laundering Policy, and the related promotion and training for officers and councillors.
- 5.4 Through the contract in place with TIAA Ltd there are other services that can be provided, these include: fraud investigations, grant certification and digital forensics.
- 5.5 Whichever role / remit is carried out by internal audit the scope is to be determined by internal audit, through discussion with senior management, however this scope will not be unduly bias nor shall it be restricted.

6. Independence, Objectivity and Due Professional Care

- 6.1 Internal audit must be sufficiently independent of the activities that are audited to enable an impartial, unbiased and effective professional judgement. Internal auditors must maintain an unbiased attitude that allows work to be performed in such a manner that no quality compromises are made. To this end all internal auditors working within Eastern Internal Audit Services, annually review and sign up to the Code of Ethics, which sets out the minimum standards for performance and conduct. The four core principles are integrity, objectivity, confidentiality and competency.
- 6.2 Internal auditors have no operational responsibility or authority over any of the activities which they are required to review. In addition, internal auditors will not review operations for which they were previously responsible for in the preceding 12 months. Internal auditors may provide consulting services relating to such operations.
- 6.3 If independence or objectivity is impaired, or appears to be, the details of the impairment will be disclosed to the Internal Audit Consortium Manager and / or senior management. The nature of the disclosure will depend upon the impairment.
- 6.4 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work is designed to enable them to provide reasonable assurance regarding the controls examined.

7. Internal Audit Resources

- 7.1 The Internal Audit Consortium Manager will be professionally qualified (CMIIA, CCAB or equivalent) and have a wide range of internal audit management experience to enable them to deliver the responsibilities that arise from the need to liaised internally and externally with councillors, senior management, officers and other professionals and stakeholders.
- 7.2 The Internal Audit Consortium Manager, through the contract with the external provider, shall ensure access to a team of staff who have the appropriate range of knowledge, skills,

qualification and experience to deliver the audit service. The types of reviews are referred to in section 5 of the charter.

8. Audit Planning

- 8.1 The Internal Audit Consortium Manager develops a strategy, alongside an annual internal audit plan, using a risk based approach.
- 8.2 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 purpose of the strategy is to provide a clear direction for internal audit services and creates a link between the Charter, the strategic plan and the annual plan.
- 8.3 On an annual basis the internal audit plan of work, developed as per the Internal Audit Strategy, is submitted to Senior Management and the Financial Scrutiny and Audit Committee for approval. The Internal Audit Consortium Manager is responsible for the delivery of the internal audit plan, which will be kept under regular review and reported through to the Committee.

9. Audit Reporting

- 9.1 As mentioned at section 8 the internal audit plans will be received on an annual basis for approval by both Senior Management and the Financial Scrutiny and Audit Committee. These annual plans are then the work plan for the internal audit contractor for the forthcoming year and are resourced accordingly.
- 9.2 On conclusion of each assurance review a draft audit report will be provided to management that;
 - Provides an assurance opinion on the systems and controls in place as to whether these are operating adequately, effectively and efficiently. These reports contribute to the annual report and opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.
 - Provides a formal report of points arising from the review and management responses to the issues raised, this includes; acceptance (or not) of the recommendation, with responsibility and timescales for implementation.
 - Provides Operational Efficiency Matters (as appropriate) 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.

On receipt of responses from management the report can then be finalised, post review by the Internal Audit Consortium Manager.

- 9.3 As mentioned in 9.2, management can choose not to accept / implement the recommendations raised by internal audit. In all such instances this will be reported through to the Financial Scrutiny and Audit Committee, especially in instances whereby there are no compensating controls justifying the course of action.
- 9.4 The Executive Summary of all final reports is reported through to the Financial Scrutiny and Audit Committee as part of the Annual Report and Opinion. Should an urgent risk or issue be reported on through the year a progress report would be submitted to the Committee for their consideration, rather than wait until year end reporting.

- 9.5 Where management agree to recommendations resulting in an action plan, these are regularly followed up to assess progress on implementation. The internal audit contractor undertakes verification work on closed recommendations, and also receives response from management in relation to progress made. The results of which are reported periodically to the Financial Scrutiny and Audit Committee by the Head of Finance, and a year end conclusion is reported on as part of the Annual Report and Opinion.
- 9.6 On conclusion of the annual internal audit plan for the financial year the Internal Audit Consortium Manager provides an annual report and opinion to senior management and the Financial Scrutiny and Audit Committee.
- 9.7 The annual report and opinion provides:
- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control during the financial year, 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);and
 - 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.

10. Quality Assurance and Improvement Programme

- 10.1 The standards require a quality assurance and improvement programme to be developed that covers all aspects of internal audit; including both internal and external assessments.
- 10.2 If an improvement plan is required as a result of the internal and / or the external assessment, in order to further develop the existing service provisions, the Internal Audit Consortium Manager will coordinate appropriate action and report against this to Senior Management and the Financial Scrutiny and Audit Committee, as part of the annual report and opinion.
- 10.3 Internal Assessment
- 10.3.1 Internal assessment includes the ongoing monitoring of the performance of the contractor through the performance measures which form a key part of the contract and through the quality review of all completed audits, both of which is undertaken by the Internal Audit Consortium Manager.
- 10.3.2 On conclusion of audit reviews a feedback form is provided to the key client on the audit process; the outcomes of which are reviewed to look to improve the service and any criticism received is investigated immediately and action taken with the contractor to resolve the issue.
- 10.3.3 The standards also require periodic self-assessment in relation to the effectiveness of internal audit, the detail and outcomes of which are then forwarded to the Section 17 Officer for their independent scrutiny, before the summary of which is provided to the Financial Scrutiny and Audit Committee as part of the annual report and opinion. This information

enables the Financial Scrutiny and Audit Committee to be assured that the internal audit service is operating in accordance with best practice.

10.4 External Assessment

10.4.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Authority. This can be in the form of a full external quality assessment that involves interviews with relevant stakeholders, supported by examination of the internal audit approach and methodology leading to the completion of an independent report, or a validated self-assessment, which the Internal Audit Consortium Manager compiles against the PSIAS assessment tool, which is then validated by an external assessor / team. The full external quality assessment is the chosen option for Eastern Internal Audit Services.

10.4.2 An external assessment will:

- Provide an assessment on the internal audit function's conformance to the standards;
- Assess the performance of the internal audit activity in light of its charter, the expectations of the various boards and executive management;
- Identify opportunities and offer ideas and counsel for improving the performance of the internal audit activity, raising the value that internal audit provides to the organisation; and
- Benchmark the activities of the internal audit function against best practice.

10.4.3 In January 2017 Eastern Internal Audit Services was fully assessed by the Institute of Internal Auditors. The conclusion of the review was:

The internal audit team fully meet most of the Standards, as well as the Definition, Core Principles and the Code of Ethics which form the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing. This is described as "Generally Conforms". It means that the internal audit team may state in its audit reports that the work "has been performed in accordance with the IPPF"

APPENDIX 2 – INTERNAL AUDIT STRATEGY



EASTERN INTERNAL AUDIT SERVICES THE BROADS AUTHORITY

INTERNAL AUDIT STRATEGY FOR 2017/18

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, the strategic plan 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 (the Internal Audit Consortium Manager) 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 audit contractor, who reports directly to the Internal Audit Consortium Manager. 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 IA 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 a specific meeting 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 this 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 an external audit 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 3 – 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 audit will focus on the Corporate Governance and Risk Management arrangements for 2017/18, with the specific focus of the review being determined nearer the time of the audit.
Key Control and Assurance	15			15		This audit looks at the fundamental systems s 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.
Service Area audits						
Asset Management	10		10			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 & disposals, leases, maintenance & insurance, valuations and reconciliations to the fixed asset register.
Port Marine Safety Code	8		8			This review is an independent audit of the Broads Authority Safety Management System (SMS). The Port Marine Safety Code (PMSC) requires that Harbour Authorities should include provision for systematic review of performance based on information from monitoring and from independent audits of the whole system. An audit and review of the marine SMS should take place every three years, informing the three-yearly publication of the marine safety plan and the Authority's performance against the previous plan, as required by the PMSC.
Total number of days	38	0	18	15	5	

Audits Previously undertaken		
Service area audits		
Partnership Working	2009/10	Limited
Fens Ecological Project	2009/10	Adequate
Planning	2011/12	Adequate
Procurement	2013/14	Adequate
Consultation Activities and partnership provisions	2014/15	Adequate
Planning	2015/16	Reasonable
External Funding - HLF Bid and National Parks Partnership	2016/17	Reasonable
IT Audits		
Disaster Recovery	2008/09	Limited
IT Governance and Strategy	2010/11	Adequate
Toll Income Application Review	2011/12	Limited
Network Security	2013/14	Limited
End User Controls	2014/15	Adequate
Anti-Virus, Malware, Backups & Firewall Administration	2016/17	Reasonable

APPENDIX 4 – PERFORMANCE MEASURES

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