

Report to	Governance Committee
Date	24 February 2015
By	Chief Finance Officer
Title of Report	Internal Audit Strategy and Plan 2015/16
Purpose of Report	To present for approval the Internal Audit Strategy and Plan for 2015/16

Recommendation: The Committee is recommended to approve the Internal Audit Strategy and Audit Plan for 2015/16

1. Introduction

- 1.1 This report presents the Authority's Internal Audit Strategy and Audit Plan for 2015/16.
- 1.2 The strategy and plan provides a key mechanism for giving assurance that the Authority's internal control, risk management and governance arrangements are effective.

2. Background

- 2.1 The Accounts and Audit Regulations 2011 require the Authority to 'maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practice'.
- 2.2 The proper practice for the 2015/16 financial year is the Public Sector Internal Audit Standards. This document is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors.
- 2.3 The plan is risk-based with audits mapped to corporate risks where practical. It provides a schedule of work to obtain assurance on the Authority's control environment and results in an Annual Internal Audit Report and Opinion. The work is also a key contribution towards providing an Annual Governance Statement.
- 2.4 The Strategy and Plan for 2015/16 is attached as **Appendix I**. The Strategy sets out the framework, key considerations and overall approach to our work. The Plan details the specific work for the coming year. It also includes a 3 year audit plan. The intention of the plan is to balance available resources with the review of core financial systems and other systems as well as services and projects which have significant risks attached to them.

3. Development of the Audit Plan

- 3.1 The audit plan has been compiled by the Audit Manager in conjunction with the Chief Finance Officer and Director of Corporate Services. Consultation has taken place with other key officers.
- 3.2 As the days available limit the number of core financial system audits that can be undertaken in any one year, an indicative three year plan has been provided to demonstrate coverage of all core financial systems over this period. Although the audit plan sets out the priorities as determined at the beginning of the financial year, changes may be necessary during the year to allow a response to emerging risks and issues. Formal approval of any significant changes to the plan (i.e. the addition or deletion of audits) will be obtained from the Governance Committee.

4. Resources

4.1 The total cost of delivering the 2015/16 Internal Audit Plan is approximately £12,000.

5. Risk Management

5.1 Internal Audit has an important role to play in relation to effective risk management for the organisation. The Internal Audit Strategy and Plan is informed by the corporate risk register. In addition reviews undertaken during the year may identify new or emerging risks.

6. Human Rights, Equalities, Health and Safety

6.1 There are no implications arising from this report.

7. Sustainability

7.1 There are no immediate sustainability implications relating to this report. Where relevant internal audit reviews consider environmental impact and sustainability and the consideration of governance arrangements is incorporated in many audit reviews. Environmental impact and sustainability are considered in the delivery of the audit service and with investment in skills within the audit team to be able to give proper consideration of this agenda.

8. External Consultees

8.1 External Audit

NIGEL MANVELL

Chief Finance Officer

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Appendices I. Internal Audit Strategy and Plan 2015/16

Consultees Chief Finance Officer, Head of Finance, Monitoring Officer, Deputy Monitoring Officer, Legal Services, Chief Executive Officer, Director of Corporate Services, Director of Strategy & Partnerships, Director of Planning, & Director of Operations.

Background Documents Internal Audit Reports
Internal Audit Strategy and Plan 2015/16.
Corporate Risk Register

Internal Audit Strategy and Annual Plan 2015-16



**Prepared by:
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Brighton and Hove City Council
February 2015**

Version 1.1

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Introduction

Purpose of this report

1. This document sets out the South Downs National Park Authority (SDNPA) Internal Audit Strategy and Annual Plan for the year 2015/16.
2. The SDNPA's internal audit function is provided by Brighton and Hove City Council. The terms of reference for the service are contained in the Internal Audit Charter, Appendix C.
3. Internal Audit supports and contributes to the achievement of the SDNPA's vision. This vision is that by 2050 in the South Downs National Park:
 - the iconic English lowland landscapes and heritage will have been conserved and greatly enhanced. These inspirational and distinctive places, where people live, work, farm and relax, are adapting well to the impacts of climate change and other pressures;
 - people will understand, value, and look after the vital natural services that the National Park provides. Large areas of high-quality and well-managed habitat will form a network supporting wildlife throughout the landscape;
 - opportunities will exist for everyone to discover, enjoy, understand and value the National Park and its special qualities. The relationship between people and landscape will enhance their lives and inspire them to become actively involved in caring for it and using its resources more responsibly;
 - its special qualities will underpin the economic and social well-being of the communities in and around it, which will be more self-sustaining and empowered to shape their own future. Its villages and market towns will be thriving centres for residents, visitors and businesses and supporting the wider rural community;
 - successful farming, forestry, tourism and other business activities within the National Park will actively contribute to, and derive economic benefit from, its unique identity and special qualities.
4. The purpose of the Internal Audit Strategy and Plan is to:
 - Provide independent and objective overall assurance to Members and senior management on the effectiveness of the SDNPA's control environment.
 - Add value and support senior management in providing effective control and identifying opportunities for improving value for money.
 - Support the Chief Finance Officer in fulfilling their obligations as the SDNPA's nominated Section 151 Officer.
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations and Public Sector Internal Audit Standards.

Key Deliverables for 2015/16

5. The following are considered to be our key deliverables:
 - To provide ongoing assurance to management on the integrity, effectiveness and operation of the SDNPA's internal control systems.
 - Delivery of the Annual Audit Plan.
 - To meet the requirements of the SDNPA's External Auditors.
 - To embed integration of internal audit work with governance and risk management to produce a coordinated risk-based approach to the audit of business/operational systems across the SDNPA.
 - To ensure agreed management responses to audit recommendations are implemented.

- To deliver the statutory requirements of the Accounts and Audit Regulations 2011.
- To work closely and effectively with the Governance Committee.

The Role and Purpose of Internal Audit

6. The statutory basis for the internal audit service is provided in the Accounts and Audit Regulations 2011, which states that a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice.
7. In addition to the above, the Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the Authority's affairs. To perform that duty the Section 151 Officer relies on amongst other things, the work of Internal Audit Services in reviewing systems of internal control, financial management and other assurance processes.
8. The standards for 'proper practice' in relation to internal audit are detailed in the Public Sector Internal Audit Standards. This document is issued by CIPFA in collaboration with the Chartered Institute of Internal Auditors.
9. We continually ensure compliance with these professional standards and reflect this in our Audit Charter (Appendix C).
10. The standard and quality of our service is principally scrutinised in four ways:
 - Customer feedback
 - Scrutiny by the Governance Committee
 - Review by External Audit
 - Internal Review
 - Independent External Reviews (Once every 5 years)

Protocol for Audit Reviews

11. For each audit review carried out an Audit Owner is identified who will be involved in the scoping of the audit to ensure it is focussed on key risks. A terms of reference will be produced for each audit review to ensure the scope, objectives and approach are understood and agreed.
12. Draft internal audit reports will be issued for discussion with the appropriate levels of management.
13. Final internal audit reports will be issued after the agreement of draft reports and contain completed management action plans that identify those responsible for implementation and timescales.
14. Agreed actions or recommendations will be followed-up in accordance with an agreed protocol.

Priority Areas for 2015/16

15. The following have been identified as priority areas for 2015/16.

Key Financial Systems

16. The review of controls and management of risks within key financial systems is a core part of our audit work. This work is important in providing annual assurance to the Authority and to meet the requirements of the National Park's external auditors. Audits have been scheduled on a 3 year cyclical basis.

Other Services and Systems

17. We have identified a list of other services, systems and processes according to an assessment of risk. This has included reviewing previous audit work, key documentation, other National Park Authority Plans and consultation with the Authority's management.

IT Audit

18. This work is included as a contingency in the audit plan, and the scope and the need for the audit will be developed in year taking into account the Authority's transfer to a new IT provider. The work will be delivered either by our own team or our external partner Mazars Public Sector Internal Audit Limited.

Risk Management

19. We have a key role to promote effective risk management across the SDNPA. Within individual audits we will seek to assess compliance with good risk management practices and the adequacy of controls put in place by management to mitigate risks in their service areas. In addition Brighton & Hove City Council employs a dedicated Risk Manager who is available to provide additional risk management services to the Authority if required. This will be provided at a day rate as specified in the contact. No specific provision is included in the 2015/16 plan.

Counter Fraud Work

20. We will support the SDNPA's counter fraud arrangements. This may include individual investigations and/or counter fraud training or workshops. No specific contingency is included for investigations in the audit plan but resources will be made available if requested from the Brighton & Hove City Council's Internal Audit and Corporate Fraud Teams.

Audit Planning, Strategy and Committee Support

21. We will work closely with Governance Committee Members in developing its role in relation to best practice and to contribute to effective corporate governance of the SDNPA.

Performance Management

22. We have established performance targets based on best professional practice. Performance indicators and targets are shown at Appendix C for four aspects of our service:
 - Cost and quality of input
 - Productivity and process efficiency
 - Compliance with professional standards
 - Staff Qualifications

Developing the Internal Audit Plan

23. The methodology used for developing the Annual Internal Audit Plan includes examining corporate risks as well as an assessment of operational risk in relation to individual systems and services. This is informed by our previous audit work and consultation with key officers from the Authority.
24. The Annual Internal Audit Plan may change during the year due to emerging risks and issues. This will be achieved through ongoing review and amendment, in consultation with relevant officers.
25. The Governance Committee will be kept informed of progress against the Annual Audit Plan and give final approval to any additions or deletions during the year.
26. The Annual Internal Audit Plan is used to deliver an Annual Internal Audit Report and Opinion. It is also a key source of information to assist in the preparation of the Annual Governance Statement.

Summary Internal Audit Plan 2015/16

27. Appendix A shows the Annual Internal Audit Plan and provides a brief summary of each review. The plan also cross references (where relevant) against the Authority's Risk Register. The allocation of the 34 audit days is summarised in Table I below.

Table I – Summary of Annual Internal Audit Plan 2015/16

Thematic Area	Audit Days
Key Financial Systems	7
Other Services and Systems	15
IT Audits	3
Committee Support, Audit Strategy and Planning	9
Totals	34

DETAILED INTERNAL AUDIT PLAN 2015/16

The table below details the Plan for 2015/16. Where the Corporate Risk Register (as at January 2015) details risks these have been cross referenced to the audits.

Audit Title	Corporate Risk Reference (if relevant)	Days	Audit Details		
			Overview	Audit Owner	Timing
Key Financial Systems					
Creditors		3	To provide assurance on the Authority's controls over ordering and payment for goods and services.	Director of Corporate Services	Qtr2
Main Accounting and Budget Management	<p>Budgets insufficient and failure to match resources and workloads across the organisation; Mgt plan suffers and SDNPA lacks capacity to support other work. Potential knock on effect on LDF preparation with emerging issues not being incorporated. Increasing demands on OPs team leads to failure to deliver on the wide range of NPA priorities. resources not available to deliver on all priorities</p> <p>Defra grant for 2015/16 is reduced by Defra during the financial year resulting in overspend on 2015/16 budget. Compensating savings would need to be found</p>	4	To review controls over the main accounting systems, interfaces to other key financial systems and budget monitoring arrangements.	Director of Corporate Services	Qtr 2

Other Services and Systems					
Planning Income	Planning fee income fails to reach the level estimated for 2014/15, thereby applying financial pressures elsewhere within the Authority	3	To provide on-going assurance on this material income stream to the Authority, and any process changes	Head of Planning	Qtr 3
Planning (Service Level Agreements)	Unexpected Planning Appeals and/ or inquiries create new , unbudgeted costs for the Authority, damage to reputation and loss of confidence in the Planning committee, planning function and the wider authority. Financial position of authority jeopardised	3	To provide assurance that controls are in place to deliver VFM and that controls ensure that the services are delivered to the standards detailed in the SLAs.	Head of Planning	Qtr 1
Allowances and Expenses		3	To test controls over the payment of allowances and expenses following the introduction of the online arrangements using the "Pier" system.	Director of Corporate Services	Qtr 3
Declarations of Interest, Gifts and Hospitality		3	To provide assurance that Officer and Member declarations are properly made and recorded.	Director of Corporate Services	Qtr 4
Business Continuity		3	To ensure the Authority has robust plans in place plan to respond to incidents and business disruptions in order to continue business operations at an acceptable pre-defined level.	Director of Corporate Services	Qtr 1

ICT Audits					
IT Audit		3	Provision for IT audit work. Terms of Reference to be confirmed in year		Qtr 3
Audit Management and Supervision					
Audit Management and Supervision		3	Supervision and review of individual audits		Qtr 1 to 4
Committee Support, Audit Strategy and Planning					
Committee Support, Attendance and Reporting by Audit Manager.		4	Attendance at Governance Committee including preparation and agenda facilitation. Corporate support, audit progress reports, liaison with external audit.		Qtr 1 to 4
Preparation of Annual Audit Plan, Annual Report and Assistance with Annual Governance Review		2	Preparation of Annual Audit Plan, Annual Report and Assistance with Annual Governance Review		Qtr 1 to 4
Total Days		34			

Summary 3 Year Internal Audit Plan

	2015/16	2016/17	2017/18
Audit	Days	Days	Days
Key Financial Systems			
Payroll		3	
Creditors/ Accounts Payable	3		3
Income Processing		2	
Treasury Management			2
Main Accounting and Budget Management	4		4
Capital Accounting		3	
Other Services and Systems			
Awarding of Grants		3	
Project and Programme Management		3	
Planning Income	3	3	3
Planning SLAs	3		
Procurement		3	3
Health and Safety			3
Corporate Governance Arrangements			
Allowances and Expenses	3		2
HR Processes		2	
Declarations of Interest, Gifts and Hospitality	3		
Business Continuity	3		2
IT Audit	3	3	3
Committee Support, Audit Management, Strategy, Planning and Reporting	9	9	9
	34	34	34

Internal Audit Charter

Introduction

This Charter sets out the terms of reference for the Internal Audit function. It defines the purpose, authority and responsibility of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be approved annually by the Governance Committee.

Internal Audit Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as *“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.”*

In the National Park Authority, internal audit provides independent and objective assurance to the Authority, its Members, the Senior Management Team (SMT) and in particular to the Chief Finance Officer to help discharge their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Authority's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Authority's governance, risk management and internal control systems.

Authority

The service is provided by Internal Audit Services at Brighton and Hove City Council. The Audit Manager is the Authority's 'Chief Audit Executive' as defined in the Public Sector Internal Audit Standards.

For the purpose of compliance with the Public Sector Internal Audit Standards, 'the Board' is defined as the Governance Committee and 'Senior Management' the Senior Management Team (SMT).

Internal Audit has unrestricted access to all Authority and partner records and information, cash, stores and other Authority property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Authority property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the Governance Committee.

Internal Audit will consider all requests from the External Auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised and which External Audit would need to discharge their responsibilities.

Internal Audit Responsibility

The Audit Manager will provide an annual opinion to the Authority and to the Chief Finance Officer, through the Governance Committee, on the adequacy and the effectiveness of the internal control system for the whole Authority.

In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Authority's needs, adds value, improves operations and helps protect public resources;
- To provide assurance to management that the Authority's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- To carry out assurance and consultancy activities across all aspects of the Authority's business based on a risk-based plan;
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- To provide assurance that significant risks to the Authority's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
- To provide responsive, challenging and informative advice and support to management on risk management, controls and government to management;
- To provide clear and concise internal audit reports to support management in implementing agreed actions to improve services and risk management, control and governance processes;
- To investigate all cases of suspected financial irregularity, fraud or corruption in accordance with agreed procedures; and
- To promote an anti-fraud and corruption culture within the Authority to aid the prevention and detection of fraud.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Authority. Internal Audit may also provide assurance to the Authority on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Internal Audit Reporting

The UK Public Sector Internal Audit Standards require the Chief Audit Executive (in this case the Principal Audit Manager) to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Annual Audit Plan that includes the Audit Charter are reported annually to the Senior Management Team and the Governance Committee. These are approved by the Governance Committee;
- The annual Internal Audit Plan is compiled by the Principal Audit Manager taking account of the Authority's risk framework and after input from members of the Senior Management Team;
- The Internal Audit budget is reported alongside Internal Audit Strategy and Annual Audit Plan;
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Principal Audit Manager) and the independence of Internal Audit will be reported annually to the Governance Committee. The approach to providing resource is set out in the Internal Audit Strategy;

- Performance against the Annual Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Senior Management Team and the Governance Committee on a regular basis throughout the financial year;
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Governance Committee;
- Results from the quality assurance and improvement programme will be reported to both the Governance Committee; and
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Governance Committee and will be included in the Annual Internal Audit Report and Opinion. If there is significant non-conformance this may be included in the Authority's Annual Governance Statement.

Internal Audit Independence

The Audit Manager has free and unfettered access to the following:

- Chief Executive;
- Chief Finance Officer (Section 151 Officer);
- The Monitoring Officer;
- External Audit;
- Chair of the Governance Committee; and
- All other members of the Senior Management Team.

The independence of the Principal Audit Manager is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Governance Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

External Audit

External Audit fulfils a statutory duty. Effective collaboration between Internal Audit and External Audit will help to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit and External Audit meet periodically to plan respective audits, discuss and share potential issues of concern to both arising from audit work.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Public Sector Internal Audit Standards
- Chartered Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- Authority Policies and Procedures; and
- All other relevant legislation.

Internal Audit now has a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance

monitoring and will include an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Chief Audit Executive holds a professional qualification (CCAB) and is suitably experienced.

Service Performance Targets

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	<ul style="list-style-type: none"> Planned days delivered 	<ul style="list-style-type: none"> 100%
Productivity and Process Efficiency	<ul style="list-style-type: none"> Achievement of annual plan (%) Issue of draft report after completion of fieldwork Issue of final report after agreement with client of draft 	<ul style="list-style-type: none"> 95% Minimum Within 10 Days Within 10 Days
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards 	<ul style="list-style-type: none"> 100% compliant
Our Staff	<ul style="list-style-type: none"> Professionally Qualified Annual Training & Development Received (Minimum) 	<ul style="list-style-type: none"> 80% 5 Days