Agenda Item 11
Appendix 1

South Downs
National Park Authority

Internal Audit Strategy and Annual Plan 2011-12

Prepared by:
Mark Dallen (Audit Manager)
Brighton and Hove City Council
June 2011

DRAFT

This page in intentionally left blank

DRAFT

Contents

	Page
Introduction & Overview	2
Key Core Deliverables 2011/12	3
The Role and Purpose of Internal Audit at the National Park	3
Protocol for Audit Reviews	4
Priority Areas for 2011/12	4
Our Performance Management	5
Provision of the Internal Audit Service for 2011/12	5
Developing the Annual Internal Audit Plan	6
Summary Internal Audit Plan 2011/12	6

Appendices

A	Detailed Internal Audit Plan 2011/12	8
B	Terms of Reference for the provision of Internal Audit Services	12
C	Service Performance Targets	16

DRAFT

Introduction & Overview

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 2011/12.

2. The SDNPA's internal audit function is provided by Brighton and Hove City Council. The terms of reference are attached at Appendix C.

3. Internal Audit supports and contributes to the achievement of the SDNPA's priorities for 2011/12 as follows:

   Purposes:
   - Conserve and enhance the natural beauty, wildlife and cultural heritage of the area
   - Promote opportunities for the understanding and enjoyment of the park's special qualities by the public

   Authority Duty:
   - To seek to foster the economic and social well-being of the communities within the National Park

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
   - Identify the key risks facing the SDNPA to achieving its objectives and determine the corresponding level of audit resources
   - 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 obligations as the SDNPA's nominated Section 151 Officer
   - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations.
   - Optimise the use of audit resources available and provide an effective service

Providing Assurance

5. The Internal Audit Strategy and Plan is aimed primarily at providing ongoing and annual assurance to the SDNPA to provide confidence to its stakeholders.

Key Core Deliverables for 2011/12

DRAFT

6. 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 system.
- Delivery of the Annual Audit Plan.
- To meet the requirements of the audit arrangements with the SDNPA's external auditors.
- To embed integration of internal audit work with governance and managing risk 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 made are implemented.
- To deliver the statutory requirements of the Accounts and Audit Regulations 2003 (as amended).
- To develop our role and work closely with the Audit Committee.

The Role and Purpose of Internal Audit in the South Downs National Park

7. The statutory basis for the internal audit service is provided in the Accounts and Audit Regulations 2003 (amended 2006), 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*. The SDNPA has recognised this statutory requirement in its financial regulations.

8. 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 in reviewing systems of internal control, financial management and other assurance processes.

9. The standards for 'proper practice' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in Local Government (Updated in 2006). We continually ensure compliance with these professional standards and reflect this in our Terms of Reference, Appendix C.

10. The standard and quality of our service is principally scrutinised in three ways:

- Scrutiny by the Audit Committee
- Review by External Audit
- Customer feedback and perceptions.

DRAFT

Protocol for Audit Reviews

11. For each audit review carried out an audit owner will be determined and will be involved in the scoping to ensure appropriately focussed on key perceived risks, providing assurance and maximising added value. Terms of reference will be produced for each audit review and agreed 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 and normally set-out in the terms of reference.

13. Final internal audit reports will be issued after the agreement of draft reports and contain completed management action plans that will identify those responsible for implementation and timescales.

14. Agreed actions or recommendations will be followed-up in accordance with arrangements agreed between Internal Audit and the Director of Corporate Services.

Priority Areas for 2011/12

15. Having regard to the current risk profile of the SDNPA, the following areas have been identified as key issues and priority areas of our work for 2011/12:

Key Financial Systems

16. The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the SDNPA and to meet the requirements of the National Park's external auditors.

Corporate Governance Arrangements

17. The SDNPA's corporate governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in reviewing the framework and providing assurance that it operates effectively and in accordance with best practice.

Risk Management

18. We have a important role to promote effective risk management across the SDNPA and 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.

ICT Audits

DRAFT

19. This work will be delivered by Hampshire County Council's Internal Audit Services.

Audit of Other Services and Systems

20. We will review other services, systems and processes according to an assessment of risk and business need. This may include financial, administrative or operational systems. It is proposed to include a significant allowance this year for reviewing systems and procedures around the Planning service.

Counter Fraud Work

21. We will review and seek to ensure the robustness of the SDNPA's arrangements. This will include the review of the counter fraud framework for the National Park, and the identification of areas of fraud risk.

Audit Committee Support

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

Our Performance Management

23. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have established performance targets based on best professional practice and which are comparable with other organisations.

24. Performance indicators and targets are shown at Appendix D for five aspects of our service:

- Cost and quality of input
- Productivity and process efficiency
- Quality of output
- Compliance with professional standards
- Outcomes and degree of influence
- Our Staff

Provision of the Internal Audit Service for 2011/12

25. The provision of Internal Audit to the SDNPA is delivered by our in-house team with IT audits being carried out by Internal Audit Services from Hampshire County Council. Where necessary this may be supplemented by resources provided by our 'external partner' Deloitte Public Sector Ltd.

Developing the Annual Internal Audit Plan

DRAFT

26. The methodology used for developing the Annual Internal Audit Plan will be focused on the quantification of the risks associated with the National Parks objectives in consultation with key officers.

27. A number of planned audits, particularly those under the heading of Key Financial Systems may be carried out every year as part of Internal Audit's statutory requirements to provide assurance to the Chief Finance Officer (Section 151 Officer) on the effectiveness of internal controls operating in the Authority.

28. Audit work covering governance will contribute towards our advice and assistance on the preparation of the Annual Governance Statement.

29. The Annual Internal Audit Plan is indicative and it is possible that that changes will be made during the year as the risk profile of the SDNPA changes. This will be achieved through ongoing review and amendment, in consultation with relevant officers. The Audit Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

Summary Internal Audit Plan 2011/12

30. Appendix A shows the Annual Internal Audit Plan and provides a brief summary of each review. The plan also shows the significance of each review in terms of risk (high, medium and low). The allocation of the 57 audit days is summarised in table 1 below.

Table 1 – Summary of Internal Audit Annual Internal Audit Plan 2011/12

Thematic Area	Audit Days 10/11	Audit Days 11/12
Key Financial Systems	9	13
Corporate Governance	6.5	3
Support for preparation of the Annual Governance Statement.	2	1
Risk Management	5	2
ICT Audits	0	5
Other systems	7	23
Contingency for Investigations/ Counter Fraud Work	2	2
Audit Committee Support	4	4
Audit Planning, annual Report and External Audit Liaison	4	4
Totals	**39.5**	**57**

31. The cost per day is based on the actual costs incurred by Brighton and Hove City Council as follows:

- Planning, liaison and reporting time based on an agreed daily rate for the Audit Manager
- Other audit days at a composite rate to cover either in-house or Deloittes staff.

32. The total cost for 2011/12 is estimated at approximately £19,500, including the additional work to be undertaken in relation to the review of the Planning Project.

DRAFT

Appendix A

Detailed Internal Audit Plan 2011/12

DRAFT

Ref. Audit Review	Risk Rating	Audit Days	Audit Details		
			Overview	Audit Owner	Timing
Fundamental Systems					
Payroll	High	3	To review main system controls over Payroll and HR systems in operation. To cover particularly the controls operating within the SDNPA, system procedures documentation, procedures for starters and leavers, data input and recording systems	Director of Corporate Services	Quarter 3
Creditors/ Accounts Payable	Medium	3	To examine key controls for the payment of suppliers and other third parties, including systems procedures documentation, authorisations and payment mechanisms.(To include the use of Authority Financials and any local Purchase Order systems, including delegations and key controls).	Director of Corporate Services	Quarter 3
Budget Management	Medium	5	To review the overall framework for budget management of the Authority. To include examination of the integrity of budget build and the effectiveness of financial monitoring arrangements, and the capital budget.	Director of Corporate Services	Quarter 2
Treasury Management	Medium	2	That arrangements are in place to ensure that that balances are managed in accordance with statutory requirements, approved policies and best practice.	Director of Corporate Services	Quarter 3
Corporate Governance					
HR Processes	Medium	3	Review to obtain assurance that key HR processes are in place and working effectively including those relating to recruitment.	Director of Corporate Services / Chief Executive	Quarter 1
Support for preparation of the Annual Governance Statement.	Not Applicable	1	Audit support to the annual governance review and assistance with preparation of the Annual Governance Statement.	Director of Corporate Services	Quarter 3-4
Risk Management					

DRAFT

Facilitation of Risk Management Workshops and Advice	Not Applicable	2	Support to the Authority's corporate risk management processes including advice and facilitation of risk workshops. (To include workshops focused on individual projects and work programmes).	Director of Corporate Services	Quarters 1-4
ICT					
IT Infrastructure and data security	Medium	5	To review controls in place to ensure that the equipment and network facilities are operated securely, with effective IT governance and back-up arrangements in place.	Head of IT, Procurement and Contracts	Quarter 1
Other Systems					
Procurement	High	5	Review of the Authority's corporate framework for procurement. To include examining bought in services which are due to be retendered in 2011/12 and SLAs as well as procedures and guidance.	Head of IT, Procurement and Contracts	Quarter 2
Planning Project – Review of Implementation arrangements	High	15	To review the effectiveness of the arrangements in place to support the implementation of the new planning framework. To include:- - Contractual Arrangements - Reimbursement of Costs - Management of Planning Application Fees	Director of Corporate Services / Chief Executive	Quarter 1 and Quarter 4
Business Continuity	Medium	3	Review on the effectiveness of arrangements in place for continuity of services after an incident affecting business critical areas of the Authority.	Director of Corporate Services / Chief Executive	Quarter 2
Fraud and Irregularities					
Contingency for Investigations/ Counter Fraud Work/ Fraud Awareness Training	Medium	2	Contingency for – -investigation of fraud and irregularities -other counter fraud work including Fraud Awareness Training and Fraud Risk Assessment.	Director of Corporate Services / Chief Executive	Quarter 1-4
Audit Planning and Reporting					

DRAFT

Audit Planning	Not Applicable	4	Preparation of Audit plan, audit progress report, annual report, liaison with external audit	Director of Corporate Services / Chief Executive	Quarters 1-4
Audit Committee Support	Not Applicable	4	Attendance at Audit Committee including preparation and agenda facilitation	Director of Corporate Services / Chief Executive	Quarters 1-4
Total Days		**57**			

DRAFT

Appendix B

Terms of Reference for the provision of Internal Audit Services

1. Purpose

1.1 This Terms of Reference is for the provision of Internal Audit Service to SDNPA.

2. Role and Function

2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion and adds value to the SDNPA on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The service is delivered by the Audit and Business Risk Division of Brighton and Hove City Council.

2.2 The control environment comprises the systems of governance, risk management and internal control.

3. Reporting Lines & Relationships

3.1 The Head of Audit & Business Risk reports to the Chief Executive, Chief Finance Officer (Section 151 Officer), other senior officers and members of the Audit Committee.

3.2 The Audit Committee is responsible for approving the Internal Audit Strategy and Annual Audit Plan.

4. Independence and Accountability

4.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal auditors do not have operational responsibility.

4.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit should have unrestricted access to officers, members, Authority records and to report in its own name.

4.3 The existence of an internal audit function within the SDNPA does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.

DRAFT

5. Statutory Role

5.1 Internal auditing is provided as a statutory service in the context of the Accounts and Audit Regulations 2003 (as amended 2006), which states that a relevant body shall maintain an adequate and effective system of internal audit of its accounting systems and its system of internal control in accordance with the proper Internal audit practices.

5.2 The statutory role is recognised and endorsed within the SDNPA's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

6. Consultancy and Advisory Role

6.1 Audit & Business Risk may also perform a consultancy or advisory role on an ad hoc basis or as part of the Annual Internal audit Plan, as requested by management. Reports from this type of work contain findings and recommendations particularly to add value to the SDNPA's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out should not jeopardise the Internal Audit independence and would normally be carried out at additional cost.

7. Internal Audit Standards

7.1 There is a statutory requirement for Audit & Business Risk to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government that accompanies the Accounts & Audit Regulations 2003 (as amended 2006).

8. Internal Audit Scope

8.1 The scope for Audit & Business Risk is 'the control environment comprising risk management, control and governance'. This means that the scope of Audit & Business Risk includes all of the SDNPA's operations, resources, services and responsibilities in relation to associated partner organisations. The priorities for Audit & Business Risk will be determined by a process of risk assessment.

9 Internal Audit Resources

9.1 Audit & Business Risk will ensure as far as possible that it appropriately staffed in terms of numbers, skills and experience. The Head of Audit & Business Risk is responsible for appointing of staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.

9.2 The Head of Audit & Business Risk is responsible for ensuring that the resources of Audit & Business Risk are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Chief Finance Officer (Section 151 Officer) and the Audit Committee.

9.3 The make up of the Audit and Business Risk Team is currently as follows:-

- Head of Audit and Business Risk (Ian Withers)

DRAFT

- Audit Manager (Mark Dallen)
- Principal Auditors x 3
- Principal Auditor (Counter Fraud)
- Auditors x 4
- Risk Manager

9.4 The Team currently includes four qualified accountants (CIPFA and ACA) and three fully qualified members of the Chartered Institute of Internal Auditors (CMIIA). In addition we have currently have one officer studying for professional qualifications.

9.5 Where necessary to provide an adequate, effective and professional service the Head of Audit & Business Risk will outsource internal audit work to supplement internal resources but will ensure quality is not compromised.

10. Fraud and Corruption

10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Audit & Business Risk will, however be alert in all their work to risks and exposures that could allow fraud or corruption.

11. Reporting Accountabilities

11.1 A written internal audit report will be prepared for every audit carried out and issued to the appropriate manager responsible for the area under review. Internal audit reports will include an 'opinion' on the risk and adequacy of controls, which together will contribute to the annual audit opinion on the SDNPA's control environment.

11.2 Audit & Business Risk will make practical recommendations based on the findings of the audit work and discuss these with management to establish appropriate action plans.

11.3 Management are expected to implement all agreed recommendations within a reasonable timeframe. An agreed system will be put in place to ensure that all agreed actions have been implemented effectively.

11.4 The Head of Audit & Business Risk will report regularly to the Audit Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.

11.5 The Head of Audit & Business Risk will provide an Annual Internal Audit Report to the Audit Committee that includes an opinion on the adequacy and effectiveness of the control environment.

12. Responsibilities

12.1 In meeting its responsibilities, the activities of Audit & Business Risk will be conducted in accordance with the SDNPA's objectives, established policies and procedures. In addition, we comply with the Code of Practice for Internal Audit in Local Government (CIPFA).

DRAFT

12.2 Audit & Business Risk will co-ordinate effectively with the SDNPA's appointed external auditors for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.

DRAFT

Appendix C

Service Performance Targets

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	• Planned days delivered	• 100%
Productivity and Process Efficiency	• Achievement of annual plan (%) • Issue of draft report after completion of fieldwork • Issue of final report after agreement with client of draft	• 95% Minimum • Within 10 Days • Within 10 Days
Quality of Output	• Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires • External audit reliance on work of internal audit	• 90% of scores within good to very good • Reliance placed
Compliance with Professional Standards	• CIPFA Code of Practice for Internal Audit in Local Government (2006)	• 100% compliant
Outcomes and degree of influence	• Implementation of recommendations	• 98% of High Priority Recommendations • 85% of Medium Priority Recommendations
Our Staff	• Professionally Qualified • Annual Training & Development Received (Minimum)	• 80% • 5 Days

DRAFT