

Report to	Policy & Resources Committee
Date	29 March 2018
By	Kathleen Downes - Internal Auditor
Title of Report Decision	Internal Audit Strategy, Charter and Annual Plan 2018/19

Recommendation: The Committee is recommended to approve the Internal Audit Strategy, Charter and Annual Plan (2018/19).

1. Introduction

- 1.1 This report presents the Internal Audit Strategy, Charter and Annual Plan for 2018/19 for approval.
- 1.2 The Internal Audit Strategy and Annual Plan provide a key mechanism for giving assurance that the Authority's internal control, risk management and governance arrangements are effective. The Charter describes for the Authority the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards.
- 1.3 The Authority's Internal Audit function is delivered by Brighton & Hove City Council, as part of the financial services contract.

2. Policy Context

- 2.1 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*".
- 2.2 The Annual Audit Plan sets out the priorities as determined at the beginning of the financial year. However, changes may be necessary during the year to allow a response to emerging risks and issues. Formal approval of changes to the plan (such as the addition or deletion of audits) will be obtained from the Policy & Resources Committee.

3. Issues for consideration

- 3.1 The Internal Audit Strategy, Charter and Annual Plan for 2018/19 are attached at **Appendix I**.
- 3.2 The Strategy sets out the framework, key considerations and overall approach to our work. The Annual Plan details the specific work for the coming year. It also includes an indicative three year cyclic 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.

4. Other Implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	No. The Internal Audit plan should be delivered within the agreed audit fee.

How does the proposal represent Value for Money?	The Internal Audit Service is an external contract with Brighton & Hove City Council which formed part of a wider procurement of financial services.
Are there any Social Value implications arising from the proposal?	No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	There are no equality issues arising from this report. Equality considerations are also taken into account with individual audit reviews as appropriate.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No, but the service includes the provision of advice and investigation of frauds and irregularities when required.
Are there any Health & Safety implications arising from the proposal?	No, but individual audits consider health and safety risks where appropriate.
Are there any Data Protection implications?	No, but individual audits consider GDPR issues where appropriate.
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy.	No, but individual audits consider these principles where relevant, particularly around the Principle 4, "Promoting good governance"

5. Risks Associated with the Proposed Decision

- 5.1 Internal Audit has an important role to play in relation to effective risk management for the organization. The SDNPA risk register is considered when developing the Internal Audit Plan and Strategy and the planning of individual audit reviews.

KATHLEEN DOWNES

Internal Auditor

South Downs National Park Authority

Contact Officer:	Kathleen Downes, Internal Auditor
Tel:	01273 291318
email:	kathleen.downes@brighton-hove.gov.uk
Appendices	I. Internal Audit Strategy, Charter and Annual Plan 2018/19
SDNPA Consultees	Chief Executive; Director of Countryside and Policy Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Head of Governance; Head of Business Services.
External Consultees	None
Background Documents	None

South Downs National Park Authority

Internal Audit Strategy, Charter & Annual Plan 2018/19



Version 1 - February 2018

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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 2018/19.
2. The SDNPA's internal audit function is delivered by Brighton & Hove City Council through its shared service arrangement known as Orbis Internal Audit. The terms of reference for the service are contained in the Internal Audit Charter, Appendix C.
3. 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 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 2018/19

4. The following are considered to be 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 2015.
 - To work closely and effectively with the Policy & Resources Committee.
 - To make best use of new techniques including data analytics when carrying out audit reviews.

The Role and Purpose of Internal Audit

5. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
6. The Public Sector Internal Audit Standards define internal auditing 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.”
7. The statutory basis for an internal audit service is provided in the Accounts and Audit Regulations 2015, which states 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.”
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 services in reviewing systems of internal control, financial management and other assurance processes.
9. The standards for ‘proper practice’ in relation to internal audit are detailed in the Public Sector Internal Audit Standards. This document (updated in April 2016) is issued by CIPFA in collaboration with the Chartered Institute of Internal Auditors.
10. We continually ensure compliance with these professional standards and reflect this in our Audit Charter (Appendix C).
11. The standard and quality of our service is scrutinised through the following:
 - Customer feedback
 - Scrutiny by the Policy & Resources Committee
 - Review by External Audit
 - Internal Review
 - Independent External Reviews

Protocol for Audit Reviews

12. For each audit review, formal terms of reference will be produced to ensure the scope, objectives and approach are understood and agreed. 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 corresponding timescales.
14. A copy of the final report will also be issued to the Chair of the Policy & Resources Committee and to its Independent Members.
15. Agreed actions or recommendations will be followed-up in accordance with an agreed protocol.

Priorities and service delivery

16. From April 2018 the service provider (Brighton & Hove City Council) is collaborating under a shared services arrangement with both East Sussex and Surrey County Councils under the name of “Orbis”. It is not intended that this will impact on the delivery of the service but it will provide the opportunity for other specialist skills to be brought in should the National Park Authority require it.

17. The internal audit coverage will continue to balance the priorities for auditing key financial systems with the audit of operational processes on a three year cyclical basis. Specific provision is also made for one IT audit during the year.
18. Arrangements are in place to deliver counter fraud services if required but these are not specifically provided in planned work. Similarly additional risk management advice and support will be provided at an agreed rate if required.
19. We will continue to work closely with Policy & Resources Committee Members in developing its role in relation to best practice and to contribute to effective corporate governance of SDNPA.

Performance Management

20. 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

21. 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.
22. The Annual Internal Audit Plan may change during the year due to emerging risks and issues. This will be managed through ongoing review and amendment, in consultation with relevant officers. The Policy & Resources Committee will be kept informed of progress against the Annual Audit Plan and give final approval to any additions or deletions during the year.
23. At the year-end an Annual Internal Audit Report and Opinion is produced. It is a key source of information to assist in the preparation of the Annual Governance Statement.

Summary Internal Audit Plan 2018/19

24. Appendix A shows the Annual Internal Audit Plan and provides a brief summary of each review. The plan includes cross references (where relevant) against the Authority's Risk Register. The allocation of the 35 audit days is summarised in Table 1 below.

Table 1 – Summary of Annual Internal Audit Plan 2018/19

Thematic Area	Audit Days
Key Financial Systems	12
Other Services and Systems	9
IT Audits	5
Committee Support, Audit Strategy and Planning	9
Total	35

Appendix A**DETAILED INTERNAL AUDIT PLAN 2018/19**

Audit Title	Corporate Risk Reference (if relevant)	Days	Audit Details		
			Overview	Audit Owner	Timing
Key Financial Systems					
Payroll (inc allowances/ expenses)	SR 02 – Finance & Budgets Budgets insufficient or budgets become insufficient due to reduction in Defra grant or in year requirement for savings; failure to match resources and workloads across the organisation; Mgt Plan suffers and SDNPA lacks capacity to support other work. Resources not available to deliver on all priorities.	4	To provide assurance that controls within the payroll system are operating. There will be a specific focus on the claiming and approval process for temporary input.	Chief Finance Officer and Head of Business Services	tbc
Creditors/ Accounts Payable (inc purchasing cards)	SR 02 – Finance & Budgets	5	To provide assurance over the payment of creditors, including controls over purchasing cards.	Chief Finance Officer	tbc
Capital Accounting	SR 02 – Finance & Budgets	3	To provide assurance over capital budgets, forecasting of expenditure and reporting of any slippage	Chief Finance Officer	tbc
Other Services and Systems					
Community Infrastructure Levy (collection & distribution)	SR 03 – CIL Insufficient resources, systems and procedures are in place to effectively collect, distribute and monitor CIL funds. Poor management of the distribution of funds leads to challenge over decision making and a failure to deliver park purposes and duties.	3	To provide assurance over the implementation of CIL, in the determination of liability, collection of income and distribution.	Director of Planning	tbc
Performance Reporting	SR 09 – Partnership Management Plan The objectives and activities of the National Park are not delivered. SR06 – Local Plan Failure to produce Local Plan within reasonable timeframe and with robust evidence makes the National Park Authority vulnerable to appeals of planning decisions.	3	To provide assurance over the robustness of KPIs reported (internally & externally) and a focus on how lessons learnt from projects are applied.	Chief Executive and Head of Business Services	tbc

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Code of Conduct (Members & Officers)	SR 16 – Staffing Inability to attract/retain key staff, High staff turnover	3	To provide assurance that Members and staff comply with the highest ethical values of working in public office.	Head of Governance & Support Services	tbc
ICT Audits					
IT audit review		5	To provide assurance over the levels of the IT control environment	ICT Strategy Manager	tbc
Audit Management and Supervision					
Audit Management and Supervision		3	Supervision and review of individual audits		Qtr 1-4
Committee Support, Audit Strategy and Planning					
Committee Support, Attendance and Reporting by Audit Manager.		4	Producing reports and attendance at Committee. Liaison with external audit.		Qtr 1-4
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 1-4
Total Days		35			

Summary 3 Year Internal Audit Plan

	2018/19	2019/20	2020/21
Audit			
Key Financial Systems			
Payroll (<i>inc 18/19 allowances/expenses & 20/21 absence recording</i>)	4		4
Creditors/ Accounts Payable (<i>inc purchasing cards</i>)	5		5
Income Processing (<i>inc Planning Income</i>)		5	
Treasury Management		3	
Main Accounting and Budget Management			3
Capital Accounting	3		
Other Services and Systems			
Awarding of Grants (<i>inc Sustainable Communities Fund</i>)			3
Project and Programme Management		3	
Community Infrastructure Levy (<i>collection & distribution</i>)	3		
Performance Reporting	3		
Contract management arrangements		5	
Procurement and use of consultancy support		5	
Health and Safety			3
Corporate Governance Arrangements			3
Code of Conduct (Members & Officers)	3		
IT Audit			
IT audit review	5	5	5
Committee Support, Audit Management, Strategy, Planning and Reporting	9	9	9
	35	35	35

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Authority the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Management Team (SMT) and the board will be the Policy & Resources Committee (described generically in this Charter as the Audit Committee).

The Charter shall be reviewed annually and approved by the Audit Committee. The Internal Audit is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS 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.”

Internal Audit supports the whole Authority to deliver economic, efficient and effective services and achieve the Authority’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain 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.

These regulations require any officer or Member of the Authority to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Authority’s Financial Regulations.

In addition, the Authority's S151 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 financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Internal Auditor is required to provide to the Audit Committee an overall opinion on the Authority's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Authority.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Authority's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Authority risk registers). Consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has direct access to and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Internal Audit's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit Committee have the opportunity to contribute to this performance review.

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

6. Reporting Lines

Regardless of line management arrangements, Internal Audit has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chair; the Chairman of the Authority and the Authority's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chair of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Authority's Anti-Fraud and Corruption Strategy.

Internal Audit should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Authority to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the Annual Internal Audit Plan, which is approved each year by the Audit Committee. The Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;

- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the Authority's Annual Governance Statement.

Revised & updated: February 2018

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 (%) 	<ul style="list-style-type: none"> 95% Minimum
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<ul style="list-style-type: none"> Conforms Conforms
Our Staff	<ul style="list-style-type: none"> Professionally Qualified Training & Development Received 	<ul style="list-style-type: none"> 80% 5 Days

