

Risk, Audit and Governance Committee

23 July 2024

Agenda item number 7

Internal Audit Annual Report and Opinion

2023/24

Report by Head of Internal Audit

Summary

This report provides the Authority with the Head of Internal Audit's annual opinion for 2023/24 on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

Recommendation

The Committee is requested to consider the Head of Internal Audit's Annual Report including:

- i. The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control, together with the summary of the work supporting the opinion.
 - ii. The statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Association Note (LGAN) and the results of the Quality Assurance and Improvement Plan (QAIP) that support the statement.
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1. Introduction

1.1. In line with the PSIAS, an annual opinion should be generated which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

1.2. The Annual Report includes: -

- An opinion on the overall adequacy and effectiveness of the Authority's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;

- Any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the Annual Governance Statement (AGS);
- A summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- An overall summary of the performance of the Internal Audit Service against its performance indicators; and
- The results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

1.3. The Head of Internal Audit can provide a 'reasonable' opinion (positive) on the framework of governance, risk management and control at the Broads Authority for 2023/24.

Author: Teresa Sharman

Date of report: 01 July 2024

[Broads Plan](#) strategic objectives: All

Appendix 1 – [Internal Audit Annual Opinion Report 2023/24](#)

EASTERN INTERNAL AUDIT SERVICES



BROADS AUTHORITY

Internal Audit Annual Opinion Report 2023/24

Head of Internal Audit: Teresa Sharman

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Summary: Internal Audit Work 2023/24

4
Audits Completed in 2023/24

0
Urgent Recs Issued

8
Important Recs Issued

6
Needs Attention Recs Issued

2
OEMs Issued

Head of Internal
Audit's Opinion
2023/24

Substantial

Reasonable

Limited

No

HOIA opinion –
Reasonable
4 positive opinions
of which 1 was
'substantial'



Executive Summary

Purpose

The Head of Internal Audit should provide an annual report, detailing its opinion on the framework of governance, risk management and control, to those charged with governance to support the Authority's Annual Governance Statement (AGS).

This report should include the following: -

- An opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Detail a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any control weakness considered by the Head of Internal Audit to be relevant to the preparation of the AGS;
- A summary of the work undertaken during the year to support the opinion, including any reliance placed on the work of other assurance bodies;
- An overall summary of the performance of the Internal Audit Service against its performance indicators; and
- The results of the internal audit quality assurance programme, including details of compliance with Internal Audit Standards.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Background

The Internal Audit Service for the Council is provided by the Consortium, Eastern Internal Audit Services, hosted by South Norfolk Council, which utilises the services of a contractor, TIAA Ltd.

All audit work is completed in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, directed by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note 2019.

Internal audit provides an independent and objective opinion on the Authority's internal controls by evaluation their effectiveness and operation in practice.

Scope of Responsibility

The Authority is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

This opinion statement is provided for the use of the Authority in support of its AGS for the year ended 31 March 2024.

Head of Internal Audit Annual Opinion Statement

Opinion

In summary: -

I have considered the audit work for 2023/24 for the Authority and am able to provide **Reasonable Assurance** in relation to the framework of risk management, governance, and internal control.

My opinion is based on the audit work completed in 2023/24, which resulted in positive opinions, other third-party assurances, the relative materiality of the issues arising from audit work and management's progress in addressing any control weaknesses identified.

In detail: -

In arriving at my overall annual opinion: -

- I have considered the increase in assurance for Corporate Governance and Risk Management audit from 'Reasonable' to 'Substantial', and the decrease in assurance from 'Substantial' to 'Reasonable' for the Key Controls and Assurance Framework audit.
- I have considered management's progress with addressing outstanding recommendations from previous years as detailed below.
- I have considered the assurance opinions given in the prior two years within the fundamental financial systems, corporate governance and risk management, I.T. and service areas, which were all positive assurance opinions.
- I have considered the outcome of the work that assessed the suitability and availability of the local aids to navigation under the management of the Broads Authority, against elements of the Port Marine Safety Code, which was found to be satisfactory by the Navigation Inspectorate in October 2023.

Third party assurances

Navigation Inspectorate audit of Local Aids to Navigation - Satisfactory

Limited opinions and urgent recommendations

No 'limited' opinions were provided in 2023/24 and no urgent recommendations were raised.

Outstanding recommendations

In relation to the follow up of management actions, to ensure that they have been effectively implemented, the position at year end 2023/24 is that nine recommendations crossing the years 2020/21 to 2023/24 are outstanding as the table below details which has been accounted for in my overall annual opinion: -

2023/24: Out of the 14 recommendations raised, four important (Port Marine Safety Code audit) and one needs attention (Governance and Risk Management audit) remain outstanding.

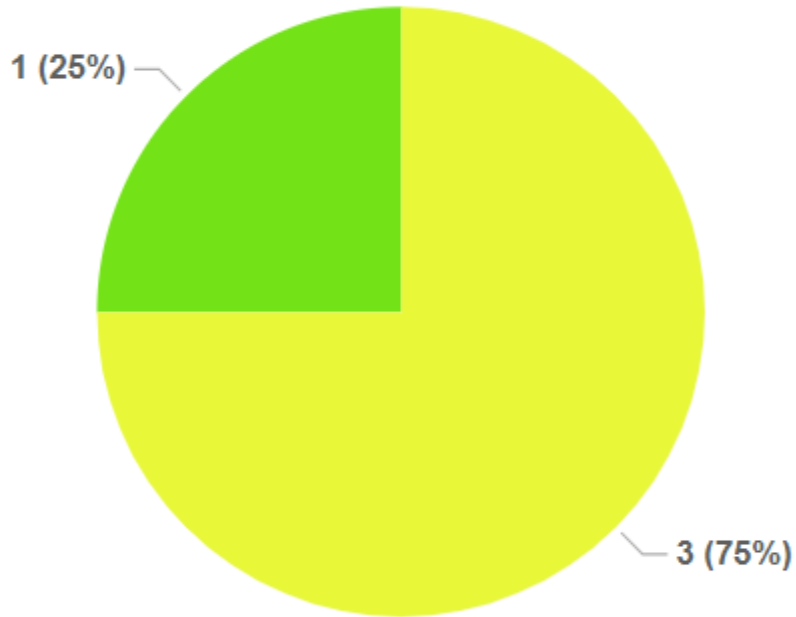
2022/23: Two needs attention recommendations (Governance and Risk Management and Corporate Health and Safety audits) remain outstanding.

Audit Year	No. Outstanding	No. of Urgent	No. of Important	No. of Needs Attention
2020/21	2	0	1	1
2022/23	2	0	0	2
2023/24	5	0	4	1

2020/21: One needs attention recommendation (Governance and Risk Management audit) and one important recommendation (Port Marine Safety Code audit which was given a 'limited' assurance opinion) remain outstanding.

Audit Outcomes 2023/24

Below is the spread of audit opinions across audit work completed in 2023/24.



Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed, and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed, and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed, and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.
Position Statement	Advisory work.

Below are the details of audit work completed in 2023/24.

Audit Area	Status	Opinion	Total Recs	Urgent	Important	Needs Attention	OEMs
Procurement	Final	Reasonable	5	0	1	4	2
Port Marine Safety Code	Final	Reasonable	3	0	2	1	0
Key Controls and Assurance Framework	Final	Reasonable	3	0	2	1	0
Corporate Governance and Risk Management	Final	Substantial	1	0	0	1	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important - Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

(Note: OEMs are Operational - Effectiveness Matter)

Performance Measures Outcomes

Internal Audit PM Outcomes

Detailed below are the outcomes of Internal Audit's performance measures which relate to the performance of the Contractor delivering internal audits for the Authority. With only seven PIs met, the overall performance status is 'Amber'. Other than KPI 1 which is measured annually and KPIs 6 and 8 which are measured continuously, all KPIs are measured quarterly.

Overall Performance Status		Amber
KPI Ref.	Description	Outcome
Senior Management		
KPI 1	S17 Satisfaction, annually minimum good.	Below Expected
Internal Audit Process		
KPI 2	APM issued minimum 20 working days before agreed start date of each review – 90% quarterly.	X
KPI 3	Quarterly draft reports issued within 10 working days of the end of the quarter – 95% quarterly.	✓
KPI 4	Quarterly final reports issued 20 working days of the end of the quarter – 95% quarterly	X
KPI 5	Quarterly performance pack reported to the Contract Manager within 15 working days of the end of the quarter	✓
KPI 6	Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	✓
KPI 7	PSIAS compliance – Deep dive review of files indicates good quality evidence saved on file – 100%. Four files per quarter	Not completed

Clients		
KPI 8	Average feedback scores from key clients, quarterly minimum average.	✓
Innovation and Capabilities		
KPI 9	Percentage of recommendations accepted by management 90% overall.	✓
KPI 10	Percentage of qualified / experienced staff working on the contract each quarter – 60%	✓
KPI 11	Number of training hours per member of staff completed each quarter – minimum 1 day per quarter.	✓

Operational KPIs

The table below shows the outcomes of the operational KPIs 2, 3 and 4 in more detail: -

KPI 2 (Issue of APMs)	KPI 3 (Issue of Drafts)
3 out of 4 on time	4 out of 4 on time
KPI 8 (Feedback)	KPI 4 (Issue of Finals)
1 out of 4 returned	3 out of 4 on time

For KPI 8, the feedback score from the one returned survey was 5, good. The range for the possible scores is, 6 - excellent and 1 – poor.

Actions to Improve

As the tables above highlight, the Contractor has not met our targets relating to issuing Audit Planning Memorandums (APMs) and final reports within the set timescales.

The S151s and S17 satisfaction, KPI 1, was also deemed to be below that expected when reviewed as a collective at the April 2024 Consortium meeting. Although, performance for the Authority, with only four pieces of audit work, has been relatively good in the year, it has not been for others in the Consortium with delays in audits due to many reasons on both sides. A Protocol, 'a ways of working together' and expectations of clients and the Contractor has been outlined to ensure that audits are completed as planned in 2024/25.

Regarding KPI 7, compliance with PSIAS deep dive review of files, this was not completed by my predecessor in quarters 1 and 2 because insufficient audits had been completed across Consortium clients. This continued to be the case with quarter 4 audits continuing into the quarter 1 of the new audit year, and due to the Head of Internal Audit only being in post for part of quarter 3 and quarter 4 only, it was decided to not complete any deep dive reviews in 2023/24. However, the Head of Internal Audit reviews and approves the issue of all APMs, draft and final reports and views all completed work programmes. As a result, more detail in audit scopes has been requested in APMs, changes to the draft and final reports have been agreed and testing completed has been questioned along the way.

Quality Assurance and Improvement Programme (QAIP)

QAIP

To comply with Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to develop and maintain an ongoing quality assurance and improvement programme (QAIP) which must include both internal and external assessments. There are three requirements as follows: -

- Ongoing monitoring of the performance of the internal audit activity. This refers to the day-to-day supervision, review and measurement of internal audit activity that is built into policies and routine procedures. The day-to-day monitoring of audit engagement is completed by the Contractor and progress with audit work and plans are monitored by the EIAS through weekly operational and quarterly performance meetings with the Contractor, and by review and approval of audit outputs, as well as by an evaluation of the Contractor's performance against our suite of KPIs.
- Periodic self-assessments to assess conformance with the International Professional Practices Framework (IPPF) that includes the Definition of Internal Auditing, the Core Principles, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. A self-assessment is completed annually.
- External assessments of conformance to the IPPF once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

The results of the QAIP are reported to the Audit Committee each year as part of this annual report.

The Internal Audit Team within EIAS maintain a QAIP which covers internal and external assessments and was detailed within your Strategic and Annual Plan Report 2024/25 to 2026/27.

Internal Assessment

A checklist for conformance with the PSIAS and the CIPFA Local Government Application Note 2019 was completed for 2020/21 and is reviewed for continuing compliance annually. This is a self-assessment which evaluates conformance with the PSIAS.

This annual self-assessment has not been completed in 2023/24. This is because the Global Internal Audit Standards (GIAS) have been released and will become effective on 1 January 2025. Our focus is now on

completing a self-assessment against these to identify any gaps in conformance so that these can be addressed, and a report will be provided to the Audit Committee during 2024/25 on our conformance. A CIPFA version for the Public Sector is expected during 2024.

(Note: the PSIAs are based on the mandatory elements of the IPPF).

External Assessment

An external quality assessment (EQA) evaluates conformance with the IPPF.

An EQA was carried out in October 2022 by the Chartered Institute of Internal Auditors (IIA). The Internal Audit Service received a 'generally conforms' result, with conformance in 60 out of 64 areas (two areas were not applicable, and two resulted in 'partially conforms').

Progress with actions

One area of partial conformance was highlighted in coordinating and maximising assurance. Within the Strategic and Annual Plans report for the audit year 2023/24 presented in March 2023, an Assurance Map was provided, outlining the then top risks, along with first, second and third lines of assurance. This was not repeated for the 2024/25 audit year. It has been proposed to complete detailed assurance maps for at least one of the Authority's corporate risks.

The second area of partial conformance was raised to ensure that all EIAS clients receive an external quality assessment as it falls due on the five-year anniversary. This will be ensured at the five-year anniversary in 2027.

Summary of Audit Opinions

Audit Opinions by Year

The following chart shows the audit opinions for audits over the last five years: -

