



BUSINESS ASSURANCE

Draft Internal Audit Plan 2016/17

4th March 2016

Audit Committee 15 March 2016

PART I – MEMBERS, PUBLIC & PRESS

The Business Assurance key contacts in connection with this document are:

Muir Laurie

Head of Business Assurance
t: 01895 556132
e: mlaurie@hillingsdon.gov.uk

Martyn White

Senior Internal Audit Manager
t: 01895 250354
e: mwhite@hillingsdon.gov.uk

Sarah Hydrie

Assistant Internal Audit Manager
t: 01895 277907
e: shydrie@hillingsdon.gov.uk

Elaine Polton

Assistant Internal Audit Manager
t: 01895 556128
e: epolton@hillingsdon.gov.uk

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1. Introduction

1.1 The Role of Business Assurance

- 1.1.1 The Business Assurance team provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective Internal Audit (IA) of its accounting records and of its system of internal controls in accordance with the proper practices.
- 1.1.2 Business Assurance gives an objective IA opinion to the Council on whether the control environment, corporate governance arrangements and risk management framework are operating effectively. In 2016/17 the Business Assurance service at Hillingdon will continue to apply a fully risk-based approach to its IA coverage (**on a quarterly basis**). This means that Business Assurance gives greater assurance to the Council because it is based on the key risks to the organisation's objectives. As a result, we will not just be commenting on whether the controls operate, but whether they are the right controls to achieve the overall aims of the service.

1.2 The Purpose of the Internal Audit Plan

- 1.2.1 The IA Plan is a crucial component of the annual assurance opinion statement provided by the Head of Business Assurance, as the Council's Head of Internal Audit (HIA), to those charged with governance. In order to deliver this assurance it is vital for the organisation to have a comprehensive IA Plan which gives sufficient risk-based coverage and support to management. Hillingdon, in common with all other councils, faces a number of challenges including increased demand for services in a number of key areas. The test for Hillingdon Council is therefore to continue to try to balance the needs of our most vulnerable communities with the continually decreasing financial resources.
- 1.2.2 To help meet this need, the risk-based IA Plan for 2016/17 has been linked to the organisational objectives and strategic priorities, whilst also taking account of the Council's wider assurance framework. In addition, the IA Plan for 2016/17 has been developed in accordance with the recently updated IA Charter and the five year IA Strategy.

2. The Internal Audit Planning Process

2.1 Skills and Resources

- 2.1.1 In line with the Public Sector IA Standards (PSIAS), the HIA is professionally qualified and suitably experienced. As part of a recent service review by the HIA, one f.t.e. senior IA post has been deleted to help the Council achieve its savings targets and to reflect the changing IA skills mix requirements of the Council. The skills mix within the rest of the in-house Business Assurance team has continued to evolve over the last 12 months, with **every IA member of the Business Assurance service now professionally qualified or actively studying for a relevant professional qualification**. In addition, two members of Business Assurance staff recently became Certified Information Systems Auditor (CISA) qualified.

Whilst both these staff need to increase their practical experience in this specialist audit area, moving forward this will reduce our dependency on partnerships with external providers for support in this specific area.

2.1.2 Demand for IA assurance and consulting services usually exceeds available IA resources at local authorities. This means choices have to be made that will determine the impact IA has upon the organisation and the way key stakeholders perceive the value of IA. The starting point in the IA planning process at Hillingdon is therefore to **determine the total available IA staff resources**.

2.1.3 After deducting an appropriate amount of allocated time for IA planning, reporting, management review, staff training and other IA overhead time, the calculated **total available IA chargeable time for 2016/17** at Hillingdon is **1,150 IA Days**. This represents a further 150 day reduction on the 2015/16 IA Plan as a result of the recent IA staff restructure following the Schools Forum funding decision which resulted in a reduction of IA focus within Schools to that of a statutory minimum (refer to paras 2.1.1 and 3.8). Overall available IA resources fulfil the PSIAS requirements in terms of the combination of professionally qualified and experienced staff. As a result, there are currently sufficient IA resources available to meet the skills and resource requirements needed to deliver the 2016/17 risk-based IA Plan.

2.2 Planning Sources

2.2.1 Although the IA Plan for the year is determined by the number of days available, the primary purpose of the IA Plan is ensuring that the key risks facing the Council are given sufficient IA attention. Therefore the next step in developing the risk-based annual IA Plan has been to make reference to a variety of planning sources (as per the flowchart of the IA Process attached at **Appendix A**) including:

- **Team Plans** – We carried out a review of team plans where these could be traced, to help us confirm the strategic objectives of each service area;
- **Corporate Risk Register** – We reviewed the Council's corporate risk register to establish those charged with governance's view of the most significant risks facing the Council;
- **Group & Service Risk Registers** – We conducted a review of Group and Service risk registers (where they were in place), to help identify the key risks facing each service;
- **Senior Management** – We have met or spoken with all senior managers across the Council including members of Corporate Management Team (CMT), to develop our knowledge of the risks and challenges facing their services;
- **Key Documents** – We have carried out a desktop review of key Council documents including minutes and reports of Cabinet and various committee meetings, as well as recent Business Improvement Delivery (BID) and Hillingdon Improvement Programme (HIP) reports, in addition to the draft budget papers for 2016/17;
- **Audit Committee** – We have invited comments from all members of the Audit Committee; the draft IA plan will be presented to the Audit Committee at its meeting on 15th March 2016 and will be subsequently updated to reflect any further comments and observations the Audit Committee members may have, before being formally finalised and circulated to all key stakeholders by 31st March 2016;
- **Members** – We have consulted with the Leader of the Council to seek his views on the key risks facing the Council; we have invited comments from all Cabinet Members, in addition to providing training at the Member development day;
- **External Audit** – We have liaised with Ernst and Young (EY) to discuss any matters of concern and to identify those areas where they are likely to consider IA work to inform their own risk assessment;

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- **External Inspections** – We have given consideration to any relevant external inspection or peer review reports; and
- **IA Cumulative Knowledge** – We also make reference to the cumulative knowledge of the Business Assurance service of known control weaknesses and risks facing the Council, including the wider strategic issues emerging elsewhere in local government.

2.3 Risk Assessment

2.3.1 Using the knowledge gained through considering the planning sources, we carry out a comprehensive **audit needs analysis** and define what is known as the **audit universe** (a long list of areas for potential IA review). We then conduct an IA risk assessment for each area in the audit universe based on **three elements** as set out over the page:

Element	Definition
Inherent Risk	Our assessment of the overall level of risk associated with the audit area. This is effectively a gross relative risk of the potential impact of this area.
Control Risk	Our assessment and cumulative knowledge of the risk that exists within a particular area based upon the controls that we understand the Council has put in place. This affects the likelihood of the risk being realised.
Materiality	Our assessment of the potential financial or organisational impact. This might be judged by the potential for a monetary loss or the extent to which it impacts on core Council objectives.

2.3.2 The Council's risk management framework is not sufficiently mature to place full reliance on the corporate, group and service risk registers to identify all the risks the Council faces. However, the corporate and group risk registers are developed adequately enough to inform the IA risk assessment process, including calculating the total audit risk. The total audit risk score is determined using each of the elements above (para 2.3.1) which enables each area in the audit universe to be categorised into one of three **overall risk assessment** areas as follows:

Overall Risk Assessment	Definition
HIGH	This relates to a significant threat or opportunity that impacts the Council's corporate objectives. This has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives.
MEDIUM	This relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. This has an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives.
LOW	This relates to a minor threat or opportunity that impacts on operational objectives. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives.

3. The 2016/17 Internal Audit Plan

- 3.1 The results of the **overall risk assessment** process are then used to determine IA priorities and produce the allocation of IA resources. Both the HIP and BID processes help the Council deal with the budget pressures and increasing demand for its services. However, this transformational work results in a fast changing control environment and we have therefore introduced a revised method to IA planning during 2015/16. This approach provides a **high-level estimation** of where we expect to utilise our resources over the coming year, with detailed operational IA Plans being produced and agreed by CMT and Audit Committee on a **quarterly basis**. During 2015/16 this revised approach has helped to ensure that IA resources were directed in a more flexible and targeted manner to maximise the benefit to our stakeholders. We will therefore continue to use this approach during 2016/17.
- 3.2 Attached at **Appendix B** is a pie chart which provides the IA Plan high-level estimation by audit type for 2016/17. We believe this allocation provides the best value to our key stakeholders, using a risk-based approach to internal control, risk management and corporate governance.
- 3.3 The relevant senior managers will be consulted with regards to the individual reviews that make up each of the high-level categories. Actual time spent on each category will be detailed in the quarterly IA progress reports.
- 3.4 The definitions of types of IA work and allocation (as detailed in the high-level IA Plan at **Appendix B**) are as follows:

Type of IA Work	Definition	% of IA Plan	IA Plan Allocation
Assurance	Work which provides comfort to CMT and the Audit Committee that risks to the achievement of objectives (including transformation projects) are being effectively mitigated and arrangements are operating as expected.	50%	575 Days
Consultancy & Advice	Work where the primary purpose is to advise and support management to improve systems and processes, mitigate risk and enable the achievement of objectives.	22%	253 Days
Core Financial Systems	Assurance coverage of the core financial processes that have a material impact on the financial position of the Council.	10%	115 Days
RBIA - CRR	<u>Risk-based IA</u> (RBIA) reviews that provide assurance on the Council's strategic risks identified in the <u>Corporate Risk Register</u> (CRR).	7%	81 Days
Grant Claims	Grant work on behalf of the Council including the Housing Subsidy and Troubled Families claims.	6%	69 Days
Follow Up	Activity which ascertains the implementation of agreed management actions.	3%	34 Days
Facilitation	Activity which supports CMT in their management of risk and the production of the Annual Governance Statement.	2%	23 Days
		100%	1,150 Days

- 3.5 However, as stated earlier, IA will **carry out a quarterly planning cycle** behind the high-level plan to ensure that we have the flexibility to respond to the dynamic environment in which the Council operates. As a result, formal updates of the IA Plan will be reported to CMT and the Audit Committee as part of the quarterly progress reports. This ensures that the risk-based IA approach is a continuous process in line with the PSIAS. This will also make sure that the IA Plan will be subject to quarterly review to ensure it remains aligned with the Council's objectives and the risks identified by management.
- 3.6 CMT and the Audit Committee should also note that **there are a significant number of audit areas identified in the audit universe which fall below the risk threshold**. These areas are therefore unlikely to form part of the detailed operational IA Plans produced each quarter, unless specifically requested by management.
- 3.7 Appended to the Quarter 4 Progress report, presented to the Audit Committee, is the detailed operational IA plan for **Quarter 1** as agreed with the relevant senior managers. The detailed IA Plan has a number **key features** including:
- **ICT Audit** – The IA Plan makes provision for specialised computer audit work to be undertaken by our external contractor with some support provided by the in-house team. The scope of this assurance work will be to assess and report upon the adequacy of the key ICT controls present within major Council systems.
 - **Projects** – Many local authorities have projects which struggle to deliver the benefits that are expected of them, often having major knock on effects with other projects and sometimes even conflicting with other projects. We can provide quality assurance on projects through the entire life cycle of change, from project identification through to final delivery.
 - **Contracts** – With the increasing number of contracts in operation across the Council, there will be an increased focus by IA on contract related 'assurance' audits. This will include reviews of the procurement process, as well as contract management arrangements for the significant / high value contracts.
 - **Consultancy** – In line with the PSIAS, IA coverage will include a range of consultancy work. The table at para 3.4 and chart at **Appendix B** highlights that 253 days has been allocated for IA consultancy which includes advice, training, facilitation or conducting specific consultancy reviews. Through participation in corporate project groups we will also provide insightful, independent and informed advice in order to reduce the risk of project failure.
 - **Anti-Fraud and Anti-Corruption** – Whilst the Corporate Fraud Investigation Team (CFIT) is the lead assurance provider for the Council on fraud and corruption, IA has a responsibility to give regard to the possibility of fraud and corruption as part of its coverage. As a consequence IA will review the Council's anti-fraud and anti-corruption key controls as part of its 'assurance' coverage whilst also continuing to work closely with the CFIT.
 - **Value for Money** – As part of our 'assurance' coverage, IA will conduct Value for Money (VfM) reviews on specific areas of expenditure and seek to reach a judgement on whether good VfM has been achieved by the Council. Good VfM is defined as the optimal use of resources to achieve the intended outcomes (i.e. economy, efficiency and effectiveness). Our role is not to question the Council's policy objectives, but to provide independent and rigorous analysis to CMT and to the Audit Committee on the way in which public money has been spent to achieve policy objectives. As well as reaching an overall conclusion on VfM, where applicable we will make recommendations on how to achieve better VfM and to improve the services under examination.

- **Core Financial Systems** – The table at para 3.4 and chart at **Appendix B** highlights that 115 days have been allocated for coverage of the core financial systems. This represents a significant reduction of the previous year's coverage (130 days in 2015/16 and 300 days in 2014/15 - see bar chart at **Appendix B**), which reflects the substantial assurance we can take from the results of our previous testing in this area.
- **Contingency** – An allocation for unprogrammed work will be included in each quarterly operational IA Plan. This will be used to respond to urgent requests for unplanned IA work. Where requests for work are not urgent, they will form part of the following quarter's operational IA Plan.

3.8 CMT and the Audit Committee should be aware that on 22nd October 2015, Schools Forum took a funding decision regarding the future of IA coverage of schools. Their decision has resulted in **IA coverage of schools being reduced to the statutory minimum** for the 2016/17 period onwards.

4. Internal Audit Reporting

- 4.1 Business Assurance reports the findings of its IA work in detail to key officers at the conclusion of each piece of its work. However, Corporate Directors would be immediately informed of any significant internal control weaknesses identified by Business Assurance.
- 4.2 With the exception of consultancy reviews (including grant claim audits), all IA reports issued by Business Assurance include an assurance rating based on the **IA Assurance Levels and Definitions** included at **Appendix C**.
- 4.3 A quarterly IA progress report is submitted to CMT and the Audit Committee, summarising IA performance and work carried out in the period. These reports provide an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given and the number and type of recommendations made. These quarterly progress reports also include the detailed operational IA Plan for the following quarter, allowing the IA Plan to be more flexible and responsive to the dynamic level of change throughout the organisation.
- 4.4 In addition, an annual IA report is presented to CMT and the Audit Committee, providing the statutory HIA opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement.

5. The Internal Audit Follow Up Process

- 5.1 Business Assurance evaluates the Council's progress in implementing management agreed IA recommendations against set targets, although detailed follow up work will not be carried out by us for any **LOW** risk recommendations. The full definitions of all the **IA Risk Ratings** are included at **Appendix C**. If progress is unsatisfactory or management fail to provide a reasonable response to our follow up requests, we will implement the escalation procedure agreed with CMT, as clearly set out in our Management Protocol.
- 5.2 Linked to this, it is important that all key stakeholders are clear on our role; we do not tell management what to do; we identify internal control, risk management and corporate governance weaknesses along with notable practices for management's attention. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways (**the 4 T's**):

- i) **Transfer** the risk i.e. insure against it;
 - ii) **Terminate** the risk i.e. stop carrying out the activity that creates the potential risk;
 - iii) **Treat** the risk i.e. take mitigating action to reduce the risk; and
 - iv) **Tolerate** the risk i.e. do nothing and accept that this risk could materialise.
- 5.3 Business Assurance support and advise managers in formulating a response to the risks identified. As an organisational improvement function, we will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Progress on the implementation of IA recommendations will continue to be formally reported to CMT and the Audit Committee on a quarterly basis.

6. Measuring Internal Audit Performance

6.1 The Public Sector Internal Audit Standards

- 6.1.1 The PSIAS came into effect on 1st April 2013 with the intention of promoting further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. The new standards stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

6.2 Internal Audit Measures of Success

- 6.2.1 The PSIAS are also clear that IA should be adding value to the organisation in which it operates. At a time when all areas of the Council are being urged to deliver better and more efficient services, it is absolutely right that IA demonstrates improvements in its services.

6.3 Reporting Internal Audit Performance

- 6.3.1 There are a wide range of Business Assurance stakeholders to satisfy, but the key stakeholders for the purposes of the IA progress reports are CMT and the Audit Committee. Further to this, attached at **Appendix D** are the agreed **IA KPIs** for use in 2016/17. We will continue to use the monitoring data maintained on our dedicated IA software system (TeamMate). A summary of actual IA performance against the targeted performance will continue to be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA service delivered by the Business Assurance team at Hillingdon.

6.4 Analysing Internal Audit Performance

- 6.4.1 All nine of the agreed IA KPIs (per **Appendix D**) need management co-operation to enable them to be achieved. In fact Business Assurance in isolation is unable to achieve any of these KPIs; they can influence the results but they cannot completely control them i.e. IA KPI 3 (**HIGH** risk IA recommendations where management action is taken within agreed timescale). Business Assurance influences this KPI by raising pragmatic recommendations and agreeing reasonable timescales with management, but ultimately the reliance is on management to strengthen the control environment in the agreed timeframe.
- 6.4.2 It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account i.e. the increased risk focused IA approach being applied to the IA Plan in 2016/17 will potentially result in a greater number of **HIGH** risk recommendations and a greater number of **LIMITED** assurance reports. The IA KPI targets are ambitious, but they are achievable and realistic for a high performing Business Assurance service, which is what we strive to be at Hillingdon. In terms of KPI 8 (Client

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Satisfaction Rating), this is based on an average score of 3.4 out of 4.0 from the IA Client Feedback Questionnaires completed by management. KPI 9 (IA reviews compliant with the PSIAS and IIA Code of Ethics) is an internal quality check completed, as part of an annual independent audit of the service, to verify that all our IA work meets the required standards.

6.5 Individual Business Assurance Staff Performance

- 6.5.1 As well as the KPIs for quarterly reporting to CMT and the Audit Committee, a further set of performance measures are in operation and are used to monitor and assess the performance of individual IA staff in Business Assurance. These operational performance measures form the basis of the annual performance targets for Business Assurance IA staff and are aligned to the detailed IA procedures and standards, as set out in the IA Manual and outlined in the IA Charter. The IA standards aim to ensure that all Business Assurance IA staff follow a consistent process for each piece of IA work and that the planned IA programme is completed within agreed timescales and to the required quality standards.

7. Acknowledgement

- 7.1 The draft IA Plan was formally considered by CMT at its meeting on 2nd March and is due to be presented to the Audit Committee at its meeting on 15th March. It will then be finalised by 31st March 2016 and be circulated to all key stakeholders including all senior managers across the Council.
- 7.2 Business Assurance would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the Council's management as part of the risk-based planning process.

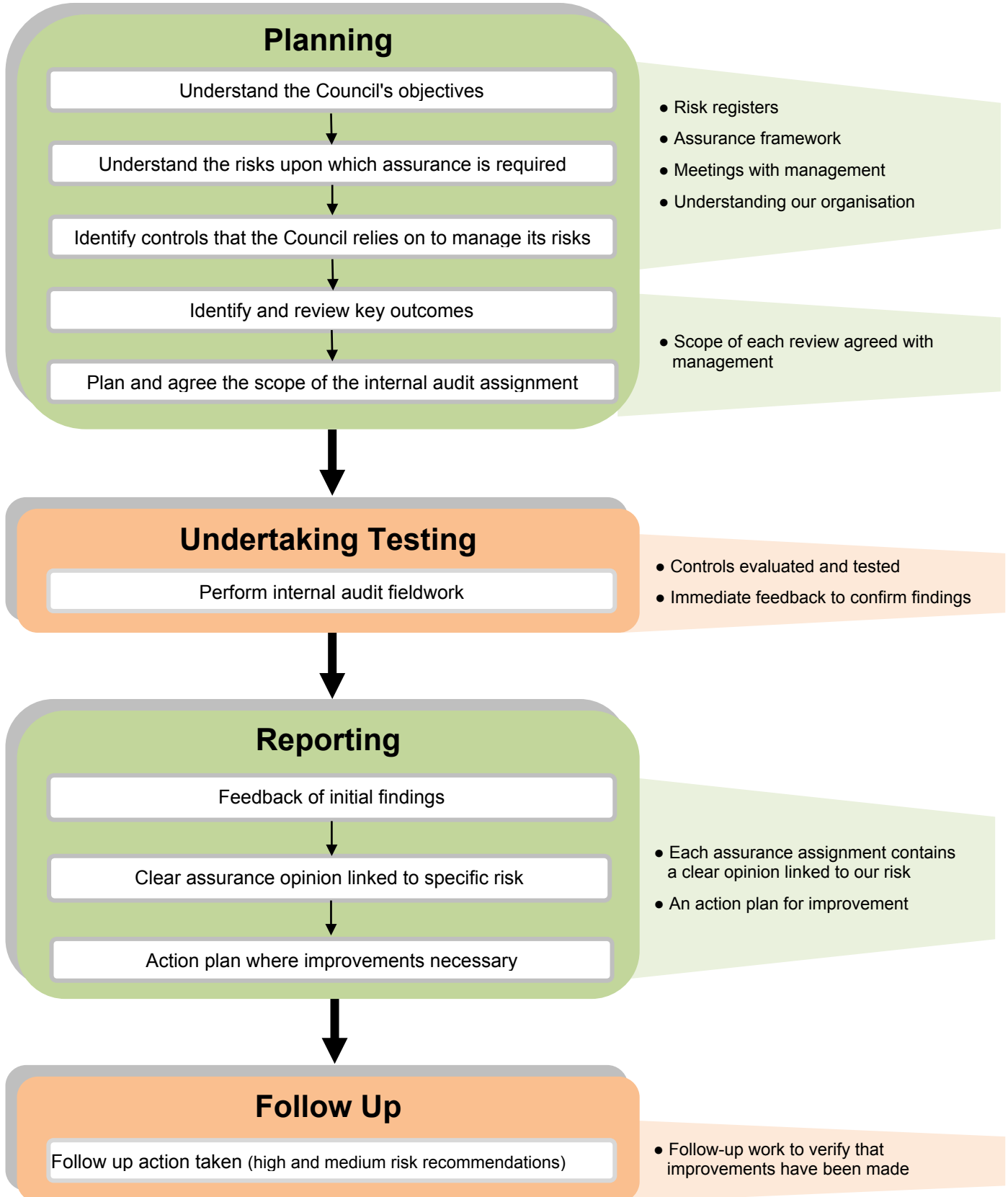
Muir Laurie ACCA CMIIA
Head of Business Assurance

4th March 2016

APPENDIX A

THE INTERNAL AUDIT PROCESS

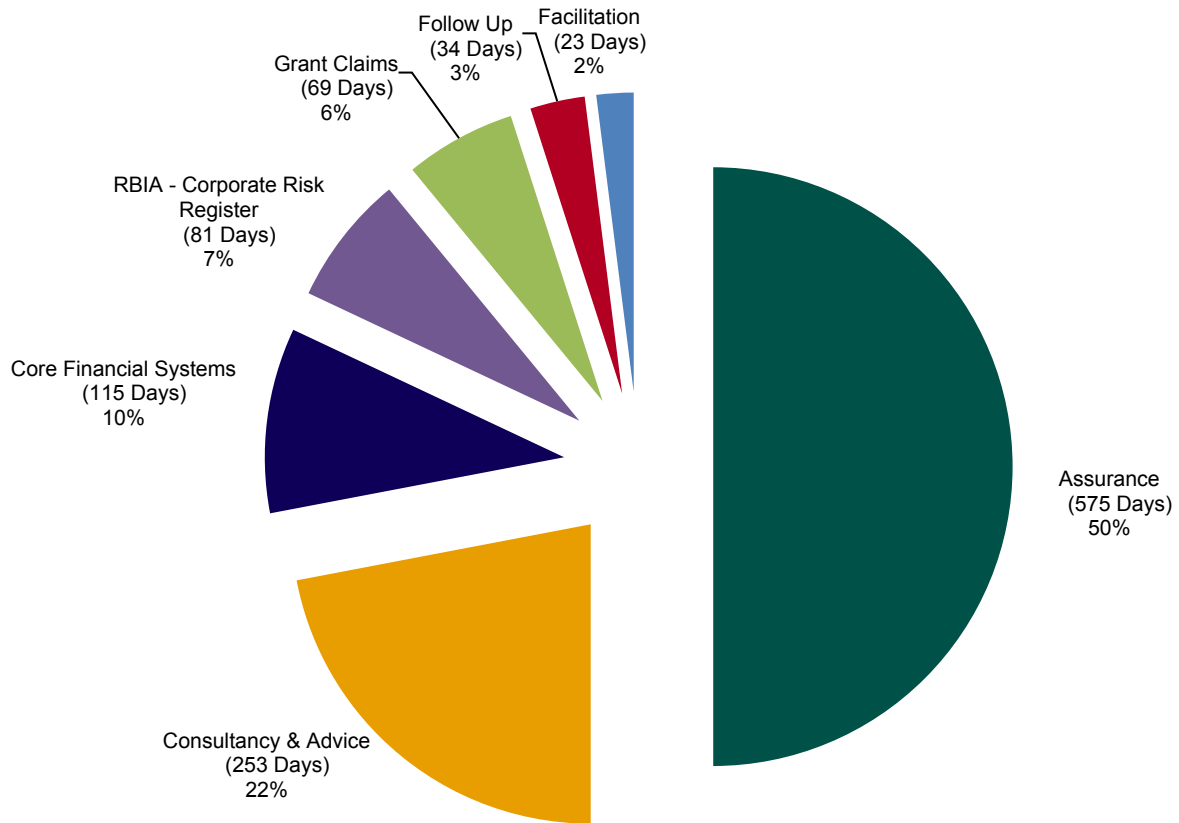
As per para 2.2.1, once total IA available IA resources have been determined, the overall IA process is summarised below:



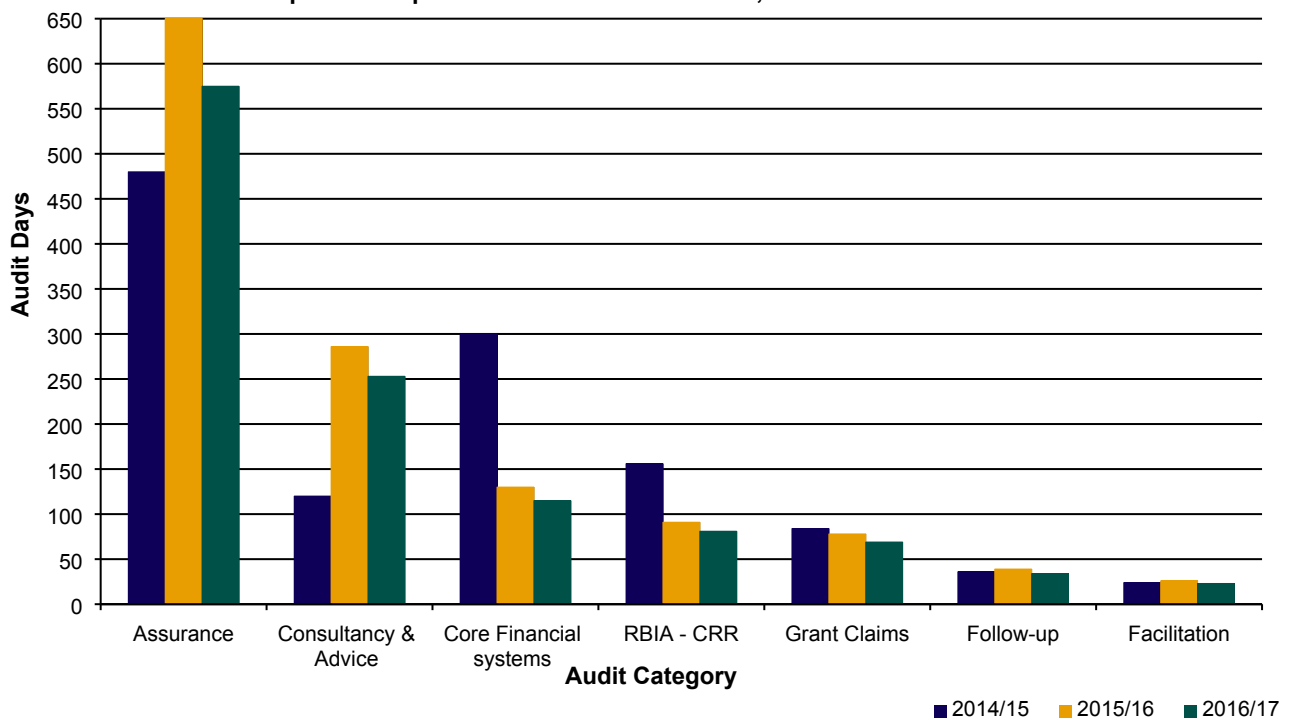
APPENDIX B

THE 2016/17 ANNUAL INTERNAL AUDIT PLAN ~ ESTIMATED ALLOCATION BY AUDIT TYPE

As per the definitions at para 3.4, the annual IA Plan estimated allocation by audit type is as follows:



Comparison of planned time between 2014/15, 2015/16 and 2016/17



APPENDIX C**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.





1. Control Environment: The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- Establishing and monitoring the achievement of the authority's objectives;
- The facilitation of policy and decision-making;
- Ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- The financial management of the authority and the reporting of financial management; and
- The performance management of the authority and the reporting of performance management.

2. Risk Appetite: The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. Residual Risk: The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX C (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

RISK	DEFINITION
HIGH 	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM 	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW 	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE 	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.

INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2016/17

The Key Performance Indicators (KPIs) for IA quarterly reporting to CMT and the Audit Committee in 2016/17 are set out below:

KPI Ref.	Performance Measure	Target Performance 2016/17
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 March	90%
KPI 6	Percentage of IA Plan delivered to final report stage by 31 March	80%
KPI 7	Percentage of draft reports issued as a final report within 15 working days	80%
KPI 8	Client Satisfaction Rating (from completed CFQs)	85%
KPI 9	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%

All IA KPIs Target Performance for 2016/17 are the same as 2015/16.

Key for above:

- CFQs = Client Feedback Questionnaires.
- PSIAS = Public Sector Internal Audit Standards.
- IIA = Chartered Institute of Internal Auditors (UK).

Key for future reporting on actual KPI performance:

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).
- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
- **GREEN** = currently meeting or exceeding this performance target.