

BRECKLAND COUNCIL

Report of the Deputy Audit Manager to the AUDIT COMMITTEE – 25 November 2011

Progress Report on Internal Audit Activity, April – October 2011

1. Purpose of Report

- 1.1 The purpose of this report is to provide an update to members of the Committee on the delivery of the Annual Audit Plan, 2011/12. In addition to providing summaries of the completed audit assignments, it will outline various changes made to the Audit Plan, review the effectiveness of Internal Audit during the period, and provide an update on the future of the Internal Audit Contract with Deloitte.

2. Recommendations

It is recommended that the Committee:

- 2.1 Note the content of this report and the progress made in delivering the Annual Audit Plan.

Note: In preparing this report, due regard has been had to equality of opportunity, human rights, prevention of crime and disorder, environmental and risk management considerations as appropriate. Relevant officers have been consulted in relation to any legal, financial or human resources implications and comments received are reflected in the report.

3. Information, Issues and Options

3.1 Background

- 3.1.1 The Accounts and Audit Regulations 2011 require that the Council maintains and adequate and effective Internal Audit of its system of internal control. In addition, at least annually, the Council is required to undertake a review of the effectiveness of its Internal Audit Service.

- 3.1.2 In March 2011, the Audit Committee agreed the Annual Audit Plan for 2011/12, encompassing a total of 220 days. This is the first report to review progress made in delivering the Annual Plan.

3.2 Delivery of the Annual Audit Plan

- 3.2.1 **Appendix 1** provides a detailed overview of the current status of the Annual Audit Plan. It is now expected a total of 210.5 days will be delivered.

- 3.2.2 The number of changes made to the Plan has been largely unprecedented at Breckland Council and, as a result, less audit work is now complete than would have been anticipated at this stage. Changes have been made as follows:

- The detailed planning of the BRK/12/01 Environmental Planning audit identified that due to the manner of the new arrangements for monitoring the Capita contract, it would be more practical to combine this with the BRK/12/14 Development Control audit. This expanded review has now commenced, and has generated a 2-day saving in the Audit Plan.
- Detailed planning for BRK/12/02, Customer Services, also identified that there were limited areas in which audit assurance could be obtained. One original element within that review, concerning insurances has since been transferred to BRK/12/07, Accountancy Services.
- Management requested that two audits, namely BRK/12/03 Community Development and BRK/12/06 Culture and Leisure, be deferred to Quarter 4. We

are assessing the potential use of the 7.5 day residual budget from the cancellation of the Customer Services audit to extend the scope of these reviews.

- The scheduling of the IT Audit Plan has been modified in light of the changes to the Council's IT service. In particular, BRK/12/16, IT Governance, has been deferred from August to January, although BRK/12/19, Licensing Application, has been brought forward from January to November.
- The delays in implementing the Council's new cash receipting application mean that the corresponding audit, BRK/12/17, was deferred until February; further delays in implementation mean it is now unlikely the audit will go ahead, in accordance with the revised timetable, although we are continuing to liaise with management regarding delivery of this audit.

3.2.3 We have been able to accommodate these changes and as such do not foresee that this should impact on our ability to deliver the annual audit plan by the 31st March 2012 and provide our requisite annual opinion thereafter.

3.3 Outcomes of work undertaken

3.3.1 At present, 4 audit assignments are complete.

3.3.2 There have been some positive developments in the outcomes of our work. We have been able to award a good assurance level to Accountancy Services, whilst arrangements for Data Protection and Freedom of Information Requests, and Sundry Debtors, have improved since our previous reviews. However, the opinion given in respect of Anti-Virus and Spyware arrangements has decreased to a limited assurance since the previous audit. Management summaries of each completed audit are included at **Appendix 2**.

3.3.3 We are in the process of finalising our remittances audit, but, as alluded to in 3.2.2. above, issues with the cash receipting application are influencing the opinion we are able to give. We understand, however, that management are now taking steps to progress the project.

3.4 Effectiveness of Internal Audit

3.4.1 We assess the performance of the internal audit contractor, Deloitte, against a number of primary measures, as follows:

Indicator	Target	April – October 2011	April – December 2010	Comment
% of audit recommendations accepted	90%	93.8%	94.1%	Meeting target
Number of days between fieldwork completion and draft report issue	No more than 10 days (average)	5.6 days	12.0 days	Meeting target
Number of days between draft report and final report issue	No more than 15 days (average)	12.0 days	22.4 days	Meeting target
Number of days between fieldwork completion and final report issue	No more than 25 days (average)	17.6 days	34.4 days	Meeting target

- 3.4.2 Members of the Committee will be aware, from our Annual Review of the Effectiveness of Internal Audit (presented on 10 June 2011) of the historic problems experienced by Deloitte in meeting contractual targets. As a result of various changes made to working arrangements during the course of the year, there has been significant improvement in compliance with the targets across the Audit Consortium. In particular, all 5 draft reports issued at present have met the 10 day target timeframe.
- 3.4.3 We also evaluate the service Deloitte provide against several other indicators to evaluate their overall performance. Audit feedback continues to remain positive, averaging 5.25 out of 6 (good), and no areas on any audit have been scored as less than adequate. Audit briefs are issued well in advance of audit fieldwork starting, and there has only been one case where audit fieldwork completion has noted any delay.
- 3.4.4 We continue to monitor the effectiveness of the overall service through compliance with the CIPFA Code of Practice for Internal Audit. There has been three key developments over recent months:
- In October, we held a constructive meeting with our colleagues from Audit Lincolnshire, who provide the Internal Audit service to South Holland DC. This has included benchmarking plans and service provision, and we are currently exploring ways in which we can operate effectively together in the future;
 - We are investigating alternative arrangements for providing Internal Audit Services to the Anglia Revenues Partnership. Due to the timing of meetings, a verbal report will be provided by the Head of Internal Audit to the Committee in respect of the latest position;
 - We have also undertaken a more general review of our working practices through review of national trends, best practice and benchmarking. This has been discussed with other partners within the Audit Consortium and will be taken forward as part of the 2012/13 Annual Audit Planning process (the outcomes of which will be presented to the Audit Committee in February 2012)
- 3.4.5 On the basis of the current position, it is concluded that the Internal Audit Service continues to remain effective for the Council; a more comprehensive report on Internal Audit effectiveness will be presented to the Committee in June 2012 alongside the Head of Internal Audit's Annual Report and Opinion.

3.5 Extension of the Audit Contract

- 3.5.1 The Internal Audit Service is provided as part of a Consortium arrangement hosted by South Norfolk Council, which employs the Audit Management Team, whereas delivery of the Annual Audit Plan is contracted to Deloitte. The contract initially covered a 5 year period, with the option to extend by 2 further years. The original 5 year arrangement was due to expire on 30 September 2012, with extension clauses permitting the end date to be subsequently revised to September 2014.
- 3.5.2 A clause within the contract requires that the rate payable to Deloitte increases each year by the rate of inflation (RPI). As a result of current financial pressures facing local government, and rising rates of inflation, Deloitte were approached as to the options that may be available to reduce audit fees. This has resulted in an offer from Deloitte that should the contract be formally extended to September 2014 at this current point in time, they would be willing to freeze their day rate to that applied in 2010/11. Given the numerous advantages this offers (as well as a financial saving, this avoids tendering the Internal Audit Service during the Audit Commission's current tender for External Audit Services), the member authorities in the Consortium have agreed to accept this offer.

3.6 Options

- 3.6.1. None presented.

3.4 Reasons for Recommendation(s)

- 3.4.1 In reviewing the work and effectiveness of Internal Audit, the Committee obtains

assurance that the systems of internal control are operating in a satisfactory manner. As a result, it is proposed that the Committee review the outcomes of Internal Audit work, and the progress made in delivering the Annual Audit Plan.

4. Risk and Financial Implications

4.1 Risk

4.1.1 None.

4.2 Financial

4.2.1 As a result of the extension of the audit contract, a saving of approximately £3,500 has been made.

5. Legal Implications

5.1 None.

6. Other Implications

a) Equalities: None

b) Section 17, Crime & Disorder Act 1998: None

c) Section 40, Natural Environment & Rural Communities Act 2006: None

d) Human Resources: None

e) Human Rights: None

f) Other: None

7. Alignment to Council Priorities

7.1 Improvements to the systems of internal control assist the Council in achieving all of its priorities

8. Ward/Community Affected

8.1 All

Background Papers

None

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Key Decision Status (Executive Decisions only):

Non-key

Appendices attached to this report:

Appendix 1: Review of work delivered in accordance with the Annual Audit Plan, 2011/12

Appendix 2: Management Summaries of completed audit assignments