

BRECKLAND COUNCIL

Report of the Head of Internal Audit to the AUDIT COMMITTEE – 15 June 2012

Head of Internal Audit's Annual Report and Opinion for 2011-12

1. Purpose of Report

- 1.1 This report has been developed to satisfy the requirements of the Accounts and Audit Regulations 2011 'to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control,' and to meet the Head of Internal Audit's annual reporting obligations as set out in the CIPFA Code of Practice for Internal Audit in Local Government. To confirm that the organisation has complied with the above, the Head of Internal Audit has produced an Annual Report and Opinion, which examines and utilises the outcomes of Internal Audit work undertaken in 2011/12 to formulate an opinion on the overall internal control environment which has been operating at the Council over the last twelve months.

2. Recommendations

- It is recommended that the Committee:
- 2.1 Receive and note the Annual Report of the Head of Internal Audit.
- 2.2 Note the overall **standards of internal control were adequate** for the year ended 31 March 2012.
- 2.3 Note that an **adequate assurance** has been given in respect of **Change Control and Corporate Governance arrangements** for the year ended 31 March 2012.
- 2.4 Note that a **good assurance** has been given in respect of the **Anglia Revenues and Benefits Partnership Governance** for the year ended 31 March 2012.
- 2.5 Note that the opinions expressed together with other matters arising from internal audit work and contained within this report should be given due consideration when developing the Council's Annual Governance Statement for 2011/12.

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 CIPFA Code of Practice for Internal Audit in Local Government in Section 10.4 stipulates that the Head of Internal Audit should report the following information at least annually:

- An opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- Any qualifications to that opinion, together with the reason for qualification;
- A summary of the audit work from which that opinion was derived;
- Any issues considered relevant to the Annual Governance Statement;
- Comparison of actual audit work undertaken with planned work, summarising the performance of internal audit against its performance measures and targets; and,
- Commentary on compliance with the standards of the Code;
- Communication of the results of the Internal Audit quality assurance programme.

- 3.1.2 This report therefore seeks to address the key items specified above, although

recognising that some aspects are covered in additional reports, e.g. an evaluation of the performance of the Internal Audit Service is subject to separate reporting, and will feature in a report headed up 'Annual Review of the Effectiveness of Internal Audit', whereas the conclusions of audit follow up work are covered in a further report entitled 'Status of Audit Recommendations due for Implementation by 31 March 2012'.

3.2 Internal Audit Service Provisions and Costs

3.2.1 The Internal Audit Service arrangements at Breckland Council have remained unchanged throughout 2011/12, in so far as the Head of Internal Audit at South Norfolk Council has continued to be responsible for managing the delivery of the Internal Audit Service to the organisation and controlling the work of Deloitte Public Sector Internal Audit Ltd, which is contracted to deliver the programme of work as detailed in the Annual Audit Plan.

3.2.2 This report primarily updates members as to Internal Audit activity carried out between November 2011 and 18 May 2012, the latter being the date when the Audit Plan was completed. However, audit work undertaken in the first half of the financial year has also been revisited, to ensure that the annual opinion subsequently given demonstrably draws on the outcomes of all review work performed over the course of the year. Members will recall that the Mid Year Internal Audit Activity Report was submitted to the Committee on 25 November 2011.

3.2.3 To ensure full transparency of the service, this report also confirms the costs associated with the provision of the Internal Audit function to the Council, identifying 2 distinct elements, namely input by the Internal Audit Services contractor to undertake the planned audit assignments earmarked for delivery in 2011/12 and the level of support required from the Audit Management Team to oversee all aspects of the service provision to officers and members. The cost of the service compared with the previous year is shown below:

Nature of the work	2010/11	2011/12
Cost of the planned work (Deloitte)	£76,250	£64,469
Cost of managing the service (South Norfolk Council)	£31,307	£32,666
Cost of additional work (REV ACTIVE Project audit)	£2,194	£2,520
TOTAL COST	£111,751	£99,655

Internal Audit costs have dropped by 9.1% compared with the previous year. This has been due to the fact that the Audit Plan for 2011/12 has involved delivery of far fewer days than was required in 2010/11 (42.9 days less) and conversely, some additional fees were incurred to meet the shared costs of the sickness absence of the Head of Internal Audit. The five participating Councils in the Audit Consortium have each contributed equally towards funding of the latter costs.

3.3 Opinion of the Head of Internal Audit on the Overall Adequacy of the Internal Control Environment at Broadland Council

Systems of Internal Control

3.3.1 The overarching opinion contained within this report relates to the system of internal control at the Council and the overall control environment in place.

3.3.2 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control essentially relies on an ongoing process designed to identify and prioritise the risks to the achievement of Breckland's policies, aims and objectives, to evaluate the likelihood of those risks

being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.3.3 The control environment encompasses the systems of corporate governance, risk management and internal control, hence, the Head of Internal Audit's Annual Opinion focuses on the effectiveness of the control environment based on an assessment of these systems, in line with areas targeted for audit focus in the approved Annual Audit Plan for 2011/12.

3.3.4 In reaching an overall opinion, the Head of Internal Audit has reviewed the assurance levels given to individual audit assignments throughout the year, relating to both financial and non financial systems. These can be summarised as follows:

Nature of System	Assurance Level Awarded	Number of Reviews
Financial	Good	2
	Adequate	2
	Limited	1
Non Financial	Good	2
	Adequate	5
	Limited	4
Total		16

Assurance Levels Awarded	Number of Reviews	% Applicable
Good	4	25.00%
Adequate	7	43.75%
Limited	5	31.25%
Total	16	100%

3.3.5 All planned work completed is itemised at **Appendix 1**. An analysis of the internal control environment and how it has been developing over the last 5 years is attached at **Appendix 3**, whilst definitions of the assurance levels applied are explained at **Appendix 4**. Essentially, good and adequate assurances are positive audit opinions, whilst conversely limited and unsatisfactory assurances equate to negative audit opinions.

3.3.6 **On the basis of the audit work undertaken in 2011/12, it is my opinion that the overall standards of internal control at Breckland Council are adequate for the year ended 31 March 2012.** As can be seen in the tables above at paragraph 3.3.4, some 68.75% of audits have received positive assurance levels, with an adequate opinion expressed in the largest number of cases with reference to

individual systems of internal control subject to audit scrutiny. However, it is also recognised that on 4 separate occasions, operational provisions have mirrored best practice and merited receipt of good audit assurances in consequence. This closely matches the position reported at the end of the previous financial year, when it was noted that 4 good, 7 adequate and 4 limited assurance levels had been applied to 15 audit assignments undertaken during 2010/11. In 2011/12, we have completed 14 planned audit assignments and in respect of the Culture and Leisure review, because we had focused on 2 distinct aspects of service delivery, we agreed with client officers to give 2 separate audit opinions. The PFI contract monitoring arrangements deservedly received a good assurance, and we were also able to acknowledge that Accountancy Services, Treasury Management and the Anglia Revenues and Benefits Partnership Governance demonstrated high standards of internal control. With the exception of the Management Summary for Accountancy Services, which was included in the Mid Year Audit Activity Report; the other three Management Summaries outlining why a good assurance was appropriate can be found at **Appendices 2 (3), 2 (5) and 2 (8)** to this report.

- 3.3.7 It should be noted that five **fundamental financial systems** have been audited in-depth during 2011/12, and that four of these generated positive assurances, two at the highest level obtainable as discussed above in paragraph 3.3.6. Conversely, our review of Receipt, Handling and Banking of Remittances resulted in a limited/negative assurance. We put forward three recommendations, one with a high priority rating to address a significant weakness found in the internal control environment as far as the risk management of an unsupported cash receipting system was concerned. The matter was not resolved by year end and thus becomes an issue for considered documentation in the Council's Annual Governance Statement for 2011/12.
- 3.3.8 We have also undertaken a review of the key controls operating in those fundamental financial systems that were not otherwise subject to detailed audit evaluation in year. Our work here is necessary to further inform the Head of Internal Audit's annual opinion, support the preparation of the organisation's Annual Governance Statement and assist External Audit in their work. Upon finalisation of this audit, we have raised one low priority rated audit recommendation, the details of which are recorded in the Management Summary at **Appendix 2 (7)**.
- 3.3.9 In respect of the Council's **non-financial systems**, upon completion of these audit assignments we are likewise able to report a positive position, with 63.6% of our work here being awarded satisfactory levels of assurance. Those areas where limited audit opinions were applicable involved Community Development, Environmental Planning and Building Control, and 2 IT topics - Virus Protection and Spyware, plus Internet and E-mail. These 4 assignments generated a total of 30 audit recommendations, with one allocated a high priority rating linked to Internet Firewall Administration. The latter remains outstanding at year end and hence, should be taken into account when compiling the authority's Annual Governance Statement.
- 3.3.10 As mentioned already at paragraph 1.2, we provide a separate report to the Audit Committee on the **implementation of audit recommendations**. This has confirmed that the Council is still maintaining an improved level of activity in delivering agreed actions arising from final audit reports compared with the previous financial year. However, there are still a considerable number of audit recommendations which remain outstanding and therefore require further input on the part of senior management to ensure that they are progressed fully, and contribute to the overall development of the internal control environment at the Council.
- 3.3.11 There is also a small quota of high priority recommendations (5) which were not completed within original timescales set and thus remain outstanding at year end. These are covered in a later section of the report – see paragraph 3.5.1 as to how

they have arisen and what action needs to be taken to remedy the internal control weaknesses which prompted their development in the first place.

3.4 Corporate Governance and Risk Management

3.4.1 Although Internal Audit conducts regular annual reviews of the Anglia Revenues and Benefits Partnership Governance arrangements, there has been deviation from an annual programme of scrutiny of Breckland Council's own Corporate Governance and Risk Management provisions since 2009/10. In 2010/11, review work centred solely on the authority's system of Risk Management after detailed planning work recognised that, due to the current stage reached over shared service arrangements with South Holland Council, it was too early to perform a meaningful audit of new shared management working practices. Thus, agreement was reached instead to restrict our focus to a review of Change Control and Corporate Governance in 2011/12, and omit Risk Management since we had been able to give a good audit opinion in this area the previous year. Our work in 2011/12 entailed a threefold approach to Corporate Governance comprising Constitutional review, Partnership working and, elements of Oversight and Policy Change.

3.4.2 The outcomes of the 2011/12 audit work are such that, **in my opinion, I am able to give an adequate assurance with regards to Breckland Council's corporate governance arrangements, and a good assurance with reference to the Anglia Revenues and Benefits Partnership's governance provisions.**

3.4.3 In 2012/13, Internal Audit will revisit Breckland Council's Corporate Governance and Risk Management arrangements and thereafter revert to a 2-yearly cycle of review. It is possible that aspects of this work may be undertaken in conjunction with South Holland's Internal Auditors (Audit Lincolnshire) but as yet, joint working intentions have yet to be fully explored and finalised. In addition, we are currently investigating future responsibility for auditing the Anglia Revenues and Benefits Partnership's governance provisions, recognising that the outcomes of this work are required to inform the Annual Internal Audit Report on the Small Bodies Annual Return.

3.5 Issues to be considered when compiling the Annual Governance Statement for 2011/12

3.5.1 As noted previously in the body of this report at paragraphs 3.3.7 and 3.3.9, there have been 2 occasions where we have identified high priority recommendations during 2011/12 audits, which present significant risks to the Council's internal control environment. In addition, there currently exists a small number of high priority recommendations pertaining to audits conducted in previous financial years which recent year end audit follow up work have confirmed remain outstanding and thus also highlight ongoing major risks to systems of internal control at the authority. The key issues which senior management should consider for inclusion when preparing the Council's Annual Governance Report for 2011/12 are therefore as follows:

- The Council should ensure that the existing cash receipting system (CR2000) is replaced with a supported system, which meets all necessary requirements of the Council. The Combined Operational Risk Register should be updated on a quarterly basis to reflect progress with the project through to its conclusion. (BRK/12/08 Receipt, Handling and Banking of Remittances, Recommendation 3).
- Overpayment arrears reports should be run and reviewed on a monthly basis with an independent check being carried out on a sample of debts to confirm that recovery action being taken is appropriate. (BRK/12/10 Housing and Council Tax Benefits, Recommendation 1).
- Management should ensure all relevant firewalls are included within the routine

network backup process with immediate effect. In addition, the folder used to store the rules backup files should be moved to a secure location separate to the firewall server itself. (BRK/12/17 Internet and E-mail, Recommendation 5).

- An Asset Management Plan (AMP) which describes how the Council's property portfolio is to be strategically managed should be formally documented and approved by Cabinet. After the AMP has been approved, the Reinvestment Strategy should be reviewed, particularly the investment attributes contained in Section 4.0 – 'Proposals' in order to confirm these are in line with set objectives. (BRK/11/06 Asset Management, Recommendation 1).
- The Council should ensure that the new maintenance contract and the street lighting contract are in place as soon as possible. For future reference, all new contracts should be negotiated in advance of the expiry of the existing contract and should be undertaken in line with the Council's procurement policies and procedures. (BRK/11/06 Asset Management, Recommendation 9).

3.6 Review of Audit Work delivered in 2011/12 compared with the Annual Audit Plan approved on 14 January 2011

3.6.1 The table below shows in summary the audit coverage that was originally planned, where it has proved necessary to revise audit input in year and then compared amended planned days with those actually delivered, whereas a more detailed overview can be found at **Appendix 1**, highlighting when audit assignments were completed and the Management Summaries extracted from the final audit reports were submitted to the Audit Committee for member noting.

Description	Days originally planned for 2011/12	Revised planned days for 2011/12	Actual days delivered	% of revised planned work delivered
Systems audit	165	158.5	158.5	100%
Computer audit	55	45	45	100%
REV ACTIVE Project – Claims 1-6		6	6	100%
Total	220	209.5	209.5	100%

3.6.2 There have been extensive changes made to the Audit Plan during 2011/12. Revisions deemed necessary between April and November 2011 were acknowledged in the Mid Year Activity Report. Since that time there have been several further adjustments, which are summarised below, whilst their overall impact on the Plan is effectively documented at **Appendix 1**:

- The combined review of BRK/12/01 Environmental Planning and Building Control was delivered using a job budget of 23 days, whereas previously we had targeted 10 days to examine Environmental Planning and 15 days to evaluate Development Services. Thus, 2 days were saved by adopting a more joined up approach over these audits.
- It has proved necessary to defer the envisaged Cash Receipting Application audit (BRK/12/18) to 2012/13 and 10 days have therefore been removed from the Plan in consequence. This audit has now been rescheduled to September 2012.
- Following detailed audit planning in relation to BRK/12/02 Customer Services, it

was agreed with the Section 151 Officer to delete this assignment from the 2011/12 Audit Plan, because work in this area was considered to be of limited value. The Internal Audit Services contractor was reimbursed for planning time spent and the remaining 9.5 days were taken out of the Plan.

- After discussions with the Section 151 Officer, the Accountancy Services job budget was expanded from 14 to 16 days to facilitate additional scrutiny of Insurances.
- An extra 3 days were added to the job budget set aside for Culture and Leisure to afford scrutiny of 2 key areas – PFI Contract Monitoring and Dual Use Agreements. The job budget thus increased from 10 to 13 days.

Collectively, these modifications have led to 16.5 days being removed from the approved Audit Plan for 2011/12.

There has also been one other revision to the body of work required by Internal Audit in respect of the financial year 2011/12. The Audit Management Team was requested to carry out its second interim review of the REV ACTIVE Project – this time focusing on Claims 6 to 11. Although this piece of work was undertaken in Quarter 1 of 2012/13, the claims applied to the calendar year – January to December 2011, which is why the outcomes of our review have been incorporated into this report. The work conducted here involved 6 days input from the Audit Management Team.

- 3.6.3 **Appendix 2** to this report contains copies of abridged Management Summaries of 13 audit reports, which have been finalised since the Mid Year Activity Report was presented to the Audit Committee in November 2011.

3.7 Effectiveness of Internal Audit

- 3.7.1 As mentioned previously, elsewhere on this agenda is a report setting out the results of our end of year review of the effectiveness of the Internal Audit Service. This includes:

- The performance of the Internal Audit Service contractor;
- The degree of compliance with the Code of Practice for Internal Audit in Local Government;
- The degree of compliance with CIPFA's Statement on the Head of Internal Audit; and,
- The level of compliance being achieved in respect of other quality assurance measures for the service.

3.8 Options

- 3.8.1. None

3.9 Reasons for Recommendation(s)

- 3.9.1 This report acts as a key source of evidence for the Council when preparing its Annual Governance Statement for 2011/12, and provides independent assurance that internal control systems are adequate and significant control weaknesses have been appropriately identified, brought to management's attention and action plans developed to address issues found by Internal Audit. Moreover, where high priority

audit recommendations are currently outstanding at year end, they have been drawn to senior management's attention for due consideration when subsequently compiling the authority's Annual Government Statement. As such, the Committee should therefore be mindful of the contents of this report when subsequently reviewing the Council's Annual Governance Statement.

4. Risk and Financial Implications

4.1 Risk

4.1.1 None.

4.2 Financial

4.2.1 Appropriate budget provisions are available to meet the costs of the Internal Audit Service for 2011/12.

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

Lead Contact Officer:

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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: Abridged Management Summaries from Completed Audit Assignments

Appendix 2 (1) BRK/12/01 Environmental Planning and Building Control

Appendix 2 (2) BRK/12/03 Community Development

Appendix 2 (3) BRK/12/06 Culture & Leisure – PFI Contract Monitoring and Dual Use Agreements

Appendix 2 (4) BRK/12/08 Receipt, handling and Banking of Remittances

Appendix 2 (5) BRK/12/09 Treasury Management

Appendix 2 (6) BRK/12/10 Housing and Council Tax Benefits

Appendix 2 (7) BRK/12/11 Work to Support the Annual Governance Statement

Appendix 2 (8) BRK/12/12 Anglia Revenues and Benefits Partnership Governance

Appendix 2 (9) BRK/12/13 Change Control and Corporate Governance

Appendix 2 (10) BRK/12/16 IT Governance Policy and Strategy

Appendix 2 (11) BRK/12/17 Internet and Email

Appendix 2 (12) BRK/12/19 LalPac Licensing Application

Appendix 2 (13) Interim Review of the Rev Active Project

Appendix 3: Summary of Assurances Awarded to date

Appendix 4: Definitions / Categories of Audit Opinions relating to Individual Audit Assignments