

Annual Review of the Effectiveness of Internal Audit

The Scope of this Review

This review is primarily about effectiveness, not process. In essence, the need for the review is to ensure that the opinion expressed by the Head of Internal Audit in the Annual Report may be relied upon as a key source of evidence in the Annual Governance Statement.

In order for Breckland Council to be able to place reliance on the opinions contained within the Annual Report and Opinion, the Head of Internal Audit has in place a performance and quality assurance framework to demonstrate that the Internal Audit Service is:

- Meeting its aims and objectives.
- Being compliant with the CIPFA Code of Practice for Internal Audit in Local Government.
- Being compliant with the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- Meeting internal quality standards, confirmed through performance indicators and post audit feedback received.
- Putting forward practical audit recommendations that are agreed with senior management and lead to ongoing improvements to the internal control environment at the Council, as evidenced by the subsequent implementation of agreed actions.
- Continually seeking to improve service delivery whilst also adding value and assisting the Council in meeting its objectives.
- Producing work which the External Auditor is able to place reliance upon.
- Supporting an effective Audit Committee.

Delivering the Aims and Objectives of Internal Audit

The aims and objectives of the Internal Audit Service are established in Internal Audit's Terms of Reference, Internal Audit's Strategy, Annual Audit Needs Assessment and Strategic and Annual Audit Plan, which are updated each year and submitted to the Audit Committee for formal approval.

There are essentially three main objectives which drive service delivery:

Objectives	Means of delivery
<p>To provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives.</p>	<p>In June each year, the Head of Internal Audit provides an annual opinion on the Council's system of internal control, and its arrangements for corporate governance and risk management.</p> <p>Internal Audit's Terms of Reference (Section 5 – Internal Audit's Independence and Accountability) and Code of Ethics explain how the Council's Internal Auditors are able to provide independent and objective opinions in relation to individual audit assignments</p>

	and when developing an overarching annual opinion.
To carry out an examination of the accounting, financial and other operations of the Council.	The Internal Audit Strategy and Terms of Reference demonstrate that Internal Audit reviews the full range of operations at the Council. All planned audit coverage is determined with the aid of a risk based annual audit needs assessment.
To assist management with the prevention, detection and investigation of fraud and abuse.	<p>Through undertaking in-depth reviews of business operations, the Internal Audit Service supports management in minimising the risk of fraud and abuse.</p> <p>In the course of 2011/12, the Council has been proactive in raising staff awareness regarding anti-money laundering, bribery, resources and procurement fraud and misuse of time, which are considered the key areas which could apply to Breckland.</p> <p>Raising staff awareness has been through the introduction of a tailored PC training course, undertaking a Staff Briefing and using posters around the building, aimed at highlighting to members and officers alike the need to be vigilant on behalf of the Council in relation to potential money laundering and fraud, etc.</p> <p>In February 2012, in recognition of the Bribery Act coming into force, changes were also made to the Counter Fraud, Corruption and Bribery Strategy, a Bribery Risk Assessment was undertaken and a Bribery Act Response Plan developed – all of which were presented to CMT.</p>

In the course of the financial year, regular progress meetings have been held with the Assistant Director, Finance (s151 Officer) to discuss delivery of both the Audit Plan and the service generally. Five meetings of the Audit Committee have also been attended by either the Head of Internal Audit or the Deputy Audit Manager, with periodic reports presented to members updating them as to the outcomes of Internal Audit work performed in year.

The Assistant Director, Finance has also attended a meeting of the Norfolk Internal Audit Consortium held in September 2011, providing the opportunity to meet with all interested parties to review progress, discuss any issues arising, and be advised of new developments to improve service delivery.

Complying with CIPFA's Code of Practice for Internal Audit in Local Government

The CIPFA Code of Practice for Internal Audit in Local Government specifies the standards for Internal Audit. In 2011/12, the Code of Practice self assessment checklist, completed by the Head of Internal Audit and submitted to the Assistant Director – Finance for independent validation, confirmed full compliance had been achieved in relation to the 11 key criteria stated therein.

Complying with CIPFA's Statement on the Role of the Head of Internal Audit in Local Government

This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Head of Internal Audit needs to:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks, commenting on responses to emerging risks and proposed developments;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose;
- Be professional qualified and suitably experienced.

Each principle has associated requirements (59 in total) to demonstrate how they should be employed in practice. The Internal Audit Service has been benchmarked against these criteria and been found to satisfy all elements. However, in the interests of continuing service improvement, it has been additionally concluded:

- Now that Breckland and South Holland Shared Management Team arrangements are embedded, it is suggested that in 2012/13, work is undertaken to afford closer links between the two authorities' respective Heads of Internal Audit, to ensure that internal auditing resources are maximised when looking to support good governance going forward.
- It will also be an aim of the Audit Management Team in 2012/13 to gain an even greater insight into the Council's overarching Assurance Framework and examine more fully the wide ranging ways in which the organisation is monitoring the quality of its governance, e.g. internal management reviews, work commissioned from management consultants, inspection and other review agencies and service delivery partners.

N.B. The detailed assessment of the Head of Internal Audit's compliance with the key governance requirements and core responsibilities as specified in the CIPFA Statement has been forwarded to the Assistant Director – Finance, for independent verification.

Quality Standards applying to the Internal Audit Service

The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Audit Committee within the Terms of Reference for

Internal Audit. Performance against these targets for the year is outlined within the table below:

Indicator	Target	2011/12 Performance	2010/11 Performance	Comment
% of audit recommendations accepted	90%	98.3%	91.8%	This continues to exceed target.
% of high priority recommendations implemented	100%	44%	33%	Improvement on previous year. Currently 5 of 9 high priority recommendations remained outstanding at 31 March 2012.
Days between issue of audit brief and fieldwork commencing	More than 10 days (average)	25	22.4	This continues to exceed target. Client officers consulted well in advance of audit commencing, with terms of reference agreed 5 weeks before the fieldwork is due to start.
Number of days between expected fieldwork completion and actual	0 days	6.2	1.3	Some deterioration noted. For more information – see below.
Number of days between completion of audit fieldwork and draft report issue	10 days or less (average)	6.8	18.3	A much improved performance compared with the previous year, such that the Internal Audit Services contractor is now delivering draft reports well inside the target set in this area.
Number of days between issue of draft and final reports	15 days or less (average)	15.5	25.2	Again, a considerable improvement in the days taken compared with 2010/11. For more information – see below.
Number of days between completion of fieldwork and final report issue	25 days or less (average)	22.3	43.5	The time taken has halved compared with previously. The Internal Audit Services contractor is now achieving turnaround of final reports well inside the target set.
Average score given to audit feedback	Adequate (4 out of 6)	Good (5.2)	Good to Excellent (5.5 out of 6)	We continue to receive good feedback.

The Internal Audit Service has recorded a positive set of results in relation to its performance targets, with one exception – the number of days between expected and actual fieldwork completion has deteriorated compared with the previous year. When reviewing why delays had occurred, it has been confirmed that the Internal

Audit Services contractor had not been at fault, instead there had been issues with management. It was appreciated that a debrief prior to finishing audit fieldwork had to be delayed due to officer unavailability in one case; audit trails concerning another audit had been difficult to follow and created considerable extra work for the auditor in trying to identify and investigate potential internal control weaknesses, and finally, with reference to a third audit - access to information requested proved problematic and was not received until 2 weeks after it was first sought.

In terms of turning around audit briefs and reports however, standards have dramatically improved. Briefs are developed and circulated on average 5 working weeks before the audit is due to commence, and audit reports are generated well within contractual targets, taking half the time that had been involved in 2010/11 to move from fieldwork to final reporting stage.

Our review of performance indicators also highlighted that the percentage of high priority audit recommendations implemented has risen in the last 12 months, as has the percentage of audit recommendations agreed with management when finalising our audit reports.

Finally, the Internal Audit Services contractor has been consistently receiving good post audit feedback.

Strengthening the Council's Systems of Internal Control

Our work has confirmed that assurance levels for individual audits carried out in 2011/12 were predominantly positive, with 25% receiving a good assurance, 43.75% an adequate assurance and the remaining 31.25% - a limited assurance. We also noted in the course of a review of Accountancy Services that we were able to give a good opinion this year, whereas previously we had awarded an adequate opinion to operational arrangements. Conversely, our work in relation to Remittances had identified a deterioration in the control environment, as the adequate assurance given in 2009/10 was replaced by a limited assurance in 2011/12. The Management Summary attaching to this audit (BRK/12/08 can be found in the Head of Internal Audit's Annual Report and Opinion at Appendix 2(4).

Our year end audit verification work has also indicated that when comparing the last 6 months of this financial year with the same period in the preceding year, the number of recommendations has risen from 56 to 65, whilst the number of completed and/or superseded recommendations has increased from 39.3% to 53.8%.

Improving Service Delivery and Adding Value

We constantly strive to enhance the Internal Audit Service, looking for ways to improve the way we operate and the quality of the audit product. To this end, we have opened dialogues with other Internal Audit Service providers where Breckland is working in partnership with other local authorities outside the Norfolk Internal Audit Consortium to receive shared services. As a consequence, we have formulated working protocols to permit joined up working when appropriate opportunities arise.

Moreover, we have continued to produce quarterly audit newsletters and towards the latter part of the financial year, arranged for Internal Audit Pages to be added to Breckland Council's Intranet, in order to further raise officer and member awareness of our role, methods of working, key contacts, terms of reference, strategy and audit plans, etc.

The Head of Internal Audit is also a member of the Norfolk Chief Auditors Group and uses this forum to keep abreast of developments and share best practice. There have additionally been opportunities in year for the Head of Internal Audit to participate in some process benchmarking initiatives, and wherever possible, learn from other practitioners about different approaches to service delivery.

Finally, another key marker of our willingness to demonstrate added value has been the flexibility we have been able to show with regards to the Annual Audit Plan, e.g. deferring planned work to enable more constructive reviews to be carried out at a later date, combining some reviews resulting in job budget savings for the authority, absorbing additional items of focus into our audit scopes and deleting work where detailed audit planning has indicated that an audit would be of limited value at the present time.

External Audit's Reliance on Internal Audit's Work

We continue to work closely with the Council's External Auditors to deliver an effective and efficient audit function and as a consequence, have regular meetings and periodic email exchanges with our External Audit colleagues to discuss progress with the Annual Audit Plan, plus any key findings and issues arising from our work.

Supporting an Effective Audit Committee

The Audit Committee undertook a review of its own effectiveness in September 2011, which highlighted that it was fully compliant with all areas of good practice identified in the IPF Toolkit for Local Authority Audit Committees.