

## **BRECKLAND COUNCIL**

### **Report of the Head of Internal Audit to the AUDIT COMMITTEE – 11 June 2010**

#### **Annual Review of the Effectiveness of Internal Audit for 2009/10**

##### **1. Purpose of Report**

- 1.1 The Accounts and Audit (Amendment) Regulations 2006 state at paragraph 6(3) that 'the relevant body shall at least once in each year conduct a review of the effectiveness of its system of internal audit'.
- 1.2 This report primarily seeks to confirm that proper arrangements have been made to comply with these statutory requirements and to present evidence to members that the system of Internal Audit at Breckland Council is effective.

##### **2. Recommendations**

- It is recommended that the Committee:
- 2.1 Note the findings of this report and the evidence given in support of the effectiveness of the Internal Audit Service, and take this into consideration when receiving the Head of Internal Audit's Annual Report and Opinion, and the Council's Annual Governance Statement.

**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 (Amendment) Regulations 2006 state at paragraph 6(3) that 'the relevant body shall, at least once in each year, conduct a review of the effectiveness of its systems of internal audit'. The regulations further state that the findings of this review be considered by a committee of the relevant body, or by members of the relevant body as a whole, as part of the wider consideration of the Council's system of internal control.
- 3.1.2 Since the introduction of this statutory requirement in 2006/07, the Head of Internal Audit's Annual Report and Opinion has incorporated a section detailing how the effectiveness of Internal Audit can be demonstrated. Moreover, prior to producing the Annual Report and Opinion, the Head of Internal Audit has also annually completed a self assessment checklist to assess overall compliance with the CIPFA Code of Practice for Internal Audit in Local Government which has then been circulated to the Section 151 Officer for his independent scrutiny and consideration, in advance of preparing the Annual Governance Statement.
- 3.1.3 This year marks a departure from previous arrangements in so far as a separate report has now been developed to enable a more detailed evaluation of the effectiveness of system of Internal Audit to be undertaken, involving members in this process.

### 3.2 Defining the System of Internal Audit

3.2.1 The system of Internal Audit is essentially the framework of assurance available to satisfy the Council that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation. The framework of assurance comprises a variety of sources and hence, should not only be regarded as the Council's Internal Audit Service. However, the Head of Internal Audit does hold a unique role within the local authority as a key independent source of assurance on all internal controls. The Head of Internal Audit is therefore central to this framework of assurance and should be conversant with the authority's risks and its overall whole control environment, as well as being kept informed of assurances provided to the authority by other review bodies.

### 3.3 Identifying who should be performing the Review of the Effectiveness of the System of Internal Audit

3.3.1 There are a number of options available to the Council as to who might participate in the review process. The following personnel are well placed to perform this function:

- The Head of Internal Audit
- The Section 151 Officer
- A review group of officers
- The Audit Committee as a whole
- A sub group of the Audit Committee
- A peer review, i.e. the Head of Internal Audit at a neighbouring authority
- A group of members and officers
- External Audit.

3.3.2 In terms of the above list of potential officers, members and third parties who could play an active part in the review process, it is feasible for the Head of Internal Audit to undertake self assessment work but the outcomes of this should then be considered by members and/or officers to ensure independent examination of the reasonableness and accuracy of findings made and the validity of conclusions reached.

### 3.4 Purpose of the Review of the System of Internal Audit

3.4.1 The 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.

3.4.2 There are other elements that contribute to the overall system of Internal Audit within the authority, including the role of the Audit Committee and management's development of systems of internal control. Assurance from these other elements can largely be drawn from the Audit Committee Self Assessment exercise, the Annual Report of the Audit Committee, the delivery of the Annual Audit Plan and the findings of individual audits which are presented to the Audit Committee twice yearly, the Annual Governance Statement plus the Statement of Accounts. However, this report will principally review the system of Internal Audit in the context of the Internal Audit Service managed by the Head of Internal Audit.

### 3.5 The Basis of the Review of the Effectiveness of Internal Audit

3.5.1 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;
- Compliant with the CIPFA Code of Practice for Internal Audit in Local Government;
- 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 achieving its objectives;
- Producing work which the External Auditor is able to place reliance upon; and,
- Supporting an effective Audit Committee.

### 3.6 Meeting Aims and Objectives

3.6.1 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/Annual Audit Plans, which are updated each year and submitted to the Audit Committee for formal approval.

3.6.2 The Head of Internal Audit and the Deputy Audit Manager have held regular meetings with the Head of Finance throughout the year to discuss delivery both of the Plan and the service generally, whilst there have also been 6 occasions in year where the Head of Internal Audit has met with the Audit Committee and kept it apprised of Internal Audit Activity, as well as assisting with the engagement of an Independent Member to serve on the Committee. Moreover, as a participating member of the Norfolk Internal Audit Consortium, there have also been 4 meetings during 2009/10 where Breckland Council's Head of Finance has had the opportunity to meet with other Consortium members, the Head of Internal Audit and Deputy Audit Manager to review progress achieved across all sites in year, discuss any issues concerning either the Internal Audit Services contractor (Deloitte) and/or the Audit Management Team, and be advised of new initiatives being introduced to improve service delivery.

### 3.7 Compliance with the Code of Practice for Internal Audit in Local Government

3.7.1 The annual completion of the Code of Practice self assessment checklist by the Head of Internal Audit has confirmed full compliance with best practice guidance in all areas, i.e.:

- The scope of Internal Audit;
- Independence;
- Ethics for Internal Audit;
- Audit Committees;

- Relationships;
- Staffing, Training and Continuing Professional Development;
- Audit Strategy and Planning
- Undertaking Audit Work;
- Due Professional Care;
- Reporting; and
- Performance, Quality and Effectiveness

### 3.8 Quality Standards applying to the Internal Audit Service

- 3.8.1 Internal Audit adopts a range of performance indicators to monitor the quality of service delivery and the Head of Finance together with the Audit Committee receive regular updates throughout the financial year regarding levels of performance being achieved.
- 3.8.2 The Internal Audit Services contractor is subject to contract targets governing the turnaround of draft and final reports upon completion of audit fieldwork and the acceptance by management of audit recommendations. Draft reports should be circulating 10 days after fieldwork has finished and a further 15 days is then allowed to finalise reports. At Breckland, draft reports have taken, on average, 14.6 days to produce following completion of the fieldwork, with a further 12.3 days incurred, on average, to then convert the draft to a final report, i.e. 26.9 days in total compared with the 25 day target set. With reference to agreement of audit recommendations, a target of 90% operates and Deloitte exceeded this expectation in 2009/10, achieving acceptance of 94.6% of all recommendations raised.
- 3.8.3 There are also performance indicators to ensure appropriate circulation of audit briefs prior to the commencement of audit fieldwork. Internal Audit were aiming for a 10-day lead-in time between confirmation of the audit brief and the commencement of work on-site, but the contractor has been able to noticeably extend this timeframe during 2009/10, whereby on average, a figure of 20.35 days has been provided between the issue of the brief and the auditor undertaking fieldwork. This performance far exceeds the contracted target in this area. A further local indicator has been established to ensure that the planned cut off date for audit fieldwork is upheld wherever possible, essentially to minimise client disruption. Performance against this indicator averaged 5.7 days between the planned and actual fieldwork completion in 2009/10.
- 3.8.4 Post Audit feedback has also been used constructively throughout the year to monitor the quality of audits provided to the Council. Audit assignments are evaluated on 4 counts – planning, conduct of audit, audit reporting and arrangements, and recommendations. A local performance indicator to obtain a score of 8 out of 10 in terms of client officer satisfaction is currently pursued. On the basis of comments received against 12 (60%) of 20 planned reviews delivered in year, an overall average score of 8.2 has been noted. This year has also witnessed an increase in the amount of post audit feedback received. In 2008/09, we had responses from auditees on 7 audits, representing feedback on 41% of reviews carried out. The improved circumstances coincide with a change in the way post audit feedback is now collected, via SurveyMonkey on-line facilities.

### 3.9 Strengthening Systems of Internal Control

- 3.9.1 Since 2007/08, we have provided assurance levels to Internal Audit opinions and year-on-year, we have closely monitored the extent to which audit recommendations arising from reviews have been supported by management and subsequently implemented. Follow up reports have been generated for Committee scrutiny on a half yearly basis, to document how the internal control environment has been changing as agreed actions have been completed and, this year, there have been significant advances with management increasing its commitment to enhancing systems of internal control by adding audit recommendation to the TEN system and

also monitoring delivery of agreed actions through Performance Clinics. In our latest report on the status of agreed actions arising from final audit reports, we have also shown the links between assurance levels and corresponding agreed recommendations, so that it is feasible to see the extent to which agreed actions have been rolled out and what, if any recommendations remain outstanding or have yet to reach their target implementation dates. In the case of systems audit recommendations put into practice – of 146 recommendations raised since 2008/09, there are now just 4 recommendations outstanding of the total due to be implemented.

3.9.2 In the course of 2009/10, we are also now monitoring how the control environment has been evolving at the Council. The Annual Report has been updated so that it analyses assurance levels since they were first introduced - this has been done to map their progression over 3 successive financial years. Certainly, there have been positive developments in the areas of corporate governance and risk with a 'good' assurance level being awarded in 2009/10 compared with an 'adequate' assurance given for arrangements in 2008/09. Furthermore, Remittances, Housing and Council Tax Benefits, Affordable Housing and IT Security are all areas which have likewise seen a positive improvement in overall assurance levels.

### 3.10 Improving Service Delivery and Adding Value

3.10.1 We are continually reviewing our approach to service delivery and the potential for introducing further enhancements to working practices and improving overall service management. We encourage client staff to contribute to terms of reference for individual audit assignments to ensure that reviews are adding value, wherever possible, as well as focusing on key controls to provide appropriate assurance in these areas.

3.10.2 Service reviews also examine risk management arrangements and performance information, as appropriate, and this expansion of audit coverage makes for more all-encompassing reviews which provide wide ranging assurance on a number of levels.

3.10.3 When developing the 2009/10 Annual Audit Plan, we included an audit on Treasury Management after concerns were raised by both the Audit Committee and senior management. Our review work has since confirmed that the Council had taken significant steps to strengthen the system of internal control in this area following problems experienced with the Icelandic Banks in 2008/09.

3.10.4 In 2009/10, we have additionally ensured that Corporate Governance and Risk Management audits together with work to support the preparation of the Annual Governance Statement are now performed in Quarter 4 of the year to which they relate, rather than undertaking this work in Quarter 1 of the succeeding year. This has enabled the Annual Report and Opinion to be prepared at an earlier stage than previously and similarly, afforded completion of the Annual Audit Plan at an earlier point in time.

3.10.5 We also appreciate the importance of being able to exercise some flexibility over the scheduling of certain audits to minimise staff disruption and avoid creating extra workload pressures for staff when conducting our audit work. As a consequence, we revised the timetabling of the Democratic Services audit from May to August 2009 to avoid clashing with elections work that had arisen. Further, we are receptive to accommodating ad-hoc review work, as and when required by management, and liaise closely with the Internal Audit Services contractor to ensure delivery of extra work within agreed timescales.

3.10.6 A further service enhancement in 2009/10 has been the development of a quarterly Audit newsletter which was launched in March 2010, to disseminate information on audit related matters with a national profile and to share best practice.

### 3.11 External Audit's Reliance on Internal Audit's Work

3.11.1 Internal Audit works closely with External Audit to maximise the effectiveness and efficiency of the overall approach to audit operated within Breckland Council. Every effort is therefore made to maximise those areas where External Audit can place reliance on the work of Internal Audit. We therefore ensure compliance with the requisite sample sizes identified by External Audit when undertaking our own control testing purposes and share the outcomes of our work with External Audit colleagues.

3.11.2 We have regular quarterly meetings with the External Audit Manager throughout the year to discuss progress against the Audit Plan and the key findings arising from our review work. Moreover, in February 2010, we updated our Audit Joint Working Protocol, presenting this to the Audit Committee for formal endorsement the following month.

3.11.3 External Audit's Annual Audit Letter, submitted to the Audit Committee on 10 January 2010 noted: 'The financial systems underpinning the financial statements continue to operate with generally sound controls in place. The Council's internal audit team complied with the requirements of the CIPFA Code'.

### 3.12 Supporting an Effective Audit Committee

3.12.1 On 11 September 2009, the Audit Committee completed a Self Assessment checklist to establish the extent to which Breckland Council was complying with Best Practice guidance as advocated by CIPFA in its publication – 'A Toolkit for Local Authority Audit Committees'. It was noted that considerable compliance with the guidance was being achieved but that there was scope to expand on existing provisions, all aspects of which have been addressed in the intervening period. Induction training has since been provided to the new Independent Member, periodic private discussions between Internal and External Audit and the Audit Committee have been initiated, External Audit now regularly submits reports to and attends meetings of the Audit Committee, and a Work Programme has been developed for the Committee and this will be re-examined for completeness each time the Committee meets in the future.

### 3.13 Recommendation

3.13.1 To note the findings of this report and the evidence given in support of the effectiveness of the Internal Audit Service, and take this into consideration when receiving the Head of Internal Audit's Annual Report and Opinion, and the Council's Annual Governance Statement.

### 3.14 Reasons for Recommendation

- 3.14.1 To demonstrate that due processes have been followed in relation to conducting an annual review of the effectiveness of Internal Audit and that reliance can be placed on the opinions expressed by the Head of Internal Audit, which will then be used to inform the authority's Annual Governance Statement.

## 4. Risk and Financial Implications

### 4.1 Risk

- 4.1.1 A failure to independently consider the results of the annual review of the effectiveness of Internal Audit and ensure that the Internal Audit Service is able to discharge its functions effectively, would generate the risk that a key aspect of the Council's internal control arrangements are not complying fully with best practice. However, this risk is mitigated by the conclusion contained within this report that an effective Internal Audit Service is operating, subject to proper management oversight and monitoring by the Audit Committee.

### 4.2 Financial

- 4.2.1 None

## 5. Legal Implications

- 5.1 None

## 6. Other Implications

Equalities: None

Section 17, Crime & Disorder Act 1998: None

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

Human Resources: None

Human Rights: None

Other: None.

## 7. Alignment to Council Priorities

- 7.1 Confirming the effectiveness of Internal Audit Service supports the delivery of the Council's business activities and the internal control environment in which services operate, and hence, contributes to the achievement of the Council's priorities.

## 8. Ward / Community Affected

All

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### Key Decision Status (Executive Decisions only):

Non-Key