

BRECKLAND COUNCIL

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

ANNUAL REPORT ON INTERNAL AUDIT ACTIVITY- 2009/10

1. Purpose of Report

- 1.1 The purpose of this report is to satisfy the requirements of the Accounts and Audit Regulations 2003, the Accounts and Audit Regulations (Amendment) 2006 and the Head of Internal Audit's annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code specifies in Section 10.4 that the following information should be forthcoming:
- a) Include an opinion on the overall adequacy and effectiveness of the organisation's control environment.
 - b) Disclose any qualifications to that opinion, together with the reasons for the qualification.
 - c) Present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies.
 - d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
 - e) Compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets.
 - f) Comment on compliance with the Standards of the Code.
 - g) Communicate the results of the internal audit quality assurance programme.

2. Recommendations

It is recommended that the Audit 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** during 2009/10.
- 2.3 Note that a **good** assurance has been given in respect of Corporate Governance and Risk Management arrangements for the year ended 31 March 2010.
- 2.4 Note that the opinions provided in respect of the overall standards of internal control and arrangements concerning corporate governance and risk management, are reflected in the Council's Annual Governance Statement for 2009/10, which is subsequently presented to the Audit Committee.

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 Arrangements at the Council for the Provision of the Internal Audit Service

3.1.1 The arrangements for the provision of Internal Audit to Breckland Council have remained unchanged throughout 2009/10, 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 at Breckland Council; acting in the capacity of Contract Manager and serving as the main point of contact with the Internal Audit Services contractor - Deloitte Public Sector Internal Audit Ltd.

3.1.2 This report seeks to give an update on internal audit activity from October 2009 through to April 2010, thereby following on from the Progress Report presented to the Audit Committee on 13 November 2009. The report further serves to provide a comprehensive overview of all audit work conducted throughout the financial year 2009/10, drawing upon this body of work to give opinions in 3 key areas – systems of internal control and risk management, and arrangements in relation to corporate governance. Added to this, Internal Audit cost information is documented and cumulative performance data is given, which analyses the quality of the service provision operating throughout the year.

3.1.3 The direct costs of the Internal Audit Service for Breckland Council over the last 12 months have totalled £96,055 comprising 2 main elements:

- Costs of Deloitte & Touche auditors - £71,311; and
- Costs of audit management team input from South Norfolk Council - £24,744.

3.2 Opinion of the Head of Internal Audit on the Overall Adequacy of the Internal Control Environment at Breckland Council

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

3.2.2 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 Council'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.

3.2.3 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 each of these systems.

3.2.4 In reaching an overall opinion, the outcomes of work performed by the Internal Audit Services contractor has been evaluated by the Head of Internal Audit. **Appendix 4** documents the assurance levels provided in relation to planned systems and computer audit work that the Deloitte auditors have carried out at the authority during the year, whilst **Appendix 3** contains the definitions/categories for the levels of assurance identified.

- 3.2.5 **On the basis of internal audit work undertaken in 2009/10, it is my opinion that the overall standards of internal control are adequate at Breckland Council for the year ended 31 March 2010 and hence, accord with proper practice.** This opinion is derived from separate opinions applying to financial systems and non financial / operational systems, as recorded in **Appendix 4**. In the course of the year, the majority of audits have culminated in an adequate assurance level being applied to the systems of internal control under evaluation, whilst Treasury Management arrangements have stood out in best practice terms and merited receipt of a 'good' audit opinion. The Management Summary contains the key findings and conclusions arising from this particular review and is attached at **Appendix 2(6)** for members' information.
- 3.2.6 However, it is also noteworthy, as can be seen from **Appendix 2 (2)** that a limited assurance was given in year to Environmental Health. A limited assurance was identified, based on a substantial number of internal control issues needing to be addressed, one of which warranted the raising of a high priority recommendation to correct a significant weakness found. Upon finalising audit work in the area of Environmental Health, a total of 12 recommendations were proposed and subsequently agreed with management, comprising 1 high, 10 medium and 1 low priority. At year-end, 8 of those 12 agreed actions had been completed, which included the high priority recommendation, whilst the remaining 4 (all carrying medium priority ratings) had yet to reach their due implementation dates.
- 3.2.7 This year, for the first time, the Annual Report also contains an analysis of assurance levels given in respect of individual audit assignments, looking back over the last 3 financial years. In the course of comparing year-on-year how the internal control environment has been developing, audit findings for 2009/10 indicate a much improved situation at the authority in the last 12 months, based on the number of positive assurances arising from audits conducted on-site.

3.3 Basis of Assurance

- 3.3.1 All audits have been performed in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, the specifications stated in the previous Internal Audit Services Contract between South Norfolk Council and Deloitte Public Sector Internal Audit Ltd, plus the standards laid down by Deloitte's own internal quality assurance systems.
- 3.3.2 **The opinions stated in paragraphs 3.2.5 and 3.6.1 of this report are derived from the work carried out by the Deloitte auditors over 2009/10.** The work performed has been cognisant of the principal risks identified in the Council's Corporate Risk Register (details of which were used to develop the Annual Audit Plan for 2009/10), and, responsive to changing priorities and additional requirements arising during the year.

3.4 Review of the Effectiveness of Internal Audit

- 3.4.1 The last 2 Annual Reports of the Head of Internal Audit have contained a commentary on the performance management and quality assurance framework, which has been operating in relation to the Internal Audit Service at Breckland. This has been necessary to confirm compliance with prescribed requirements in the Accounts and Audit (Amendment) Regulations 2006 and offer evidence as to why the Council can place reliance on the audit opinions given at year-end.
- 3.4.2 In addition to these arrangements, at the end of 2007/08 and 2008/09, the Head of Internal Audit submitted the outcomes of self assessment work undertaken in support of the effectiveness of the Internal Audit Service to the Section 151 Officer for independent scrutiny and validation. However, for 2009/10, a new approach is being advocated so that members can play a more active role in the review process and, as a consequence, a separate report on the Service's effectiveness has been prepared for the Audit Committee to consider. At the same time, the Head of Finance has been sent copies of the completed self assessment checklist for 2009/10 pertaining to the Code of Practice for Internal Audit in Local Government, together with detailed performance information and an analysis of post audit feedback received in year.

3.5 Issues relevant to the Annual Governance Statement

- 3.5.1 In accordance with Regulation 4 of the Account and Audit Regulations 2003, the Council is responsible "*for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk*". With effect from 1st April 2007, an Annual Governance Statement has to be completed, which focuses on the governance framework at the Council and draws upon many sources of assurance, such as:
- Directors and managers;
 - The responsible financial officer;
 - The monitoring officer;
 - Members;
 - The Head of Internal Audit;
 - Performance and risk management;
 - Third parties, e.g. partnerships; and,
 - External audit and other review agencies.
- 3.5.2 To assist the process outlined in paragraph 3.5.1 above, Internal Audit has recently undertaken work to:
- Assess the current position prior to preparing the Annual Governance Statement, taking into account the findings of internal audit reviews conducted throughout 2009/10.
 - Examine the operation of key controls for each of the main financial systems not subject to planned systems audit review in the course of the financial year.
 - Revisit the status of high, medium and low priority audit recommendations previously accepted by management in order to gauge the extent to which the internal control environment is being further developed by management to address the risks facing their services.
 - Analyse whether the authority has sufficiently robust systems and processes in place for corporate governance, and for the identification and management of strategic and operational risks.

3.5.3 All key controls relation to the Council's eleven core financial systems (i.e. General Ledger maintenance, Budgetary Control, Fixed Assets, Cash/Treasury Management, Receipt/Handling/Banking of Remittances, Sundry Debtors, Creditors, Payroll and Human Resources, Housing Benefits and Council Tax Benefits, Council Tax plus National Non Domestic Rates) have been evaluated via planned audit projects or through testing of material controls as part of the internal audit review to support the preparation of the Annual Governance Statement for 2009/10 as mentioned in paragraph 3.5.2. Additional audit testing has indicated some deficiencies within key controls which have been brought to management's attention. The findings of our work were recorded in a final audit report issued on 14 April 2010. The areas affected are as follows:

Council Tax and National Non Domestic Rates – Exemptions / Discounts

- Where review forms issued as part of the annual exemption / discount review process are not returned, management should ensure that appropriate follow up action is taken and exemptions / discounts are cancelled where necessary.
(Medium priority recommendation raised in consequence)

National Non Domestic Rates – Sample Checking

- A sample checking exercise should be undertaken in respect of National Non Domestic Rates processing.
(Medium priority recommendation raised in consequence)

3.5.4 The recommendations to address the issues highlighted above have been rated as medium priority, and as such, do not need to be recorded in the Annual Governance Statement for 2009/10, but they do reflect on the internal control environment, albeit in a minor way, hence their identification in the Annual Report on Internal Audit Activity.

3.6 Opinion of the Head of Internal Audit on the Overall Adequacy of Corporate Governance Arrangements and Systems of Risk Management at Breckland Council

3.6.1 **In my opinion, I am able to give a good assurance with regards to the Council's corporate governance arrangements and systems of risk management during 2009/10.**

3.6.2 This opinion is based on the outcomes of an audit assignment conducted in Quarter 4 of 2009/10, details of which are supplied at **Appendix 2 (9)**. The assurance level given to these 2 important aspects of Council operations in the previous financial year had been adequate with 3 medium priority recommendations arising, and one of these was still awaiting implementation at the time of the 2009/10 audit. We then found in the course of analysing provisions for 2009/10 that no further steps were required to enhance current arrangements, hence the awarding of a good opinion in this area. Our year-end verification work when revisiting the status of agreed audit recommendations further confirmed that the outstanding recommendation, mentioned previously, had now been implemented.

3.7 Audit Work undertaken in 2009/10

3.7.1 The table overleaf 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, whilst 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.

Description	Days originally planned for 2009/10	Revised planned days for 2009/10	Actual days delivered	% of revised planned work delivered
Systems audit	186	184	184	100%
Computer audit	51	51	51	100%
Total	237	235	235	100%

3.7.2 There has been only one minor change to planned work during 2009/10. The Annual Audit Plan approved by the Audit Committee on 13 March 2009 was reduced by 2 days after discussions with management in January 2010, following completion of Part 1 of the audit of Data Quality and Performance Indicators (Audit No. BRK/10/06). The first stage of this particular audit had utilised 8 days of the 10 day job budget originally allocated. There had then been the intention to redirect the remaining 2 days to another project linked to counter fraud and corruption arrangements at the Council, which would be undertaken by the Audit Management Team. However, this piece of work has now been rescheduled to 2010/11; thus generating a saving of 2 days on the Annual Plan in consequence. The revised Plan has therefore encompassed 235 days, involved the delivery of 20 separate audits and was effectively completed on 29 April 2010.

3.7.3 **Appendix 2** to this report contains copies of abridged Management Summaries of 12 audit reports, which have been finalised since the Mid Year Progress Report was presented to the Audit Committee on 13 November 2009.

3.8 Performance of the Internal Audit Service

3.8.1 In addition to ensuring delivery of specific work in the Annual Audit Plan, the Internal Audit Services contract provides for the service to be measured against the following indicators, as tabulated below.

Description of indicator	Target	Achievement during 2008/09	Achievement during 2009/10
Average time taken from completion of fieldwork to the issue of draft audit reports	10 working days	29.5 working days	14.6 working days
Average time taken between issuing draft and final audit reports	15 working days	32.9 working days	12.3 working days
Average time taken from completion of fieldwork to the issue of final audit reports	25 working days	62.4 working days	26.9 working days
Percentage of audit recommendations accepted	90%	100%	96.4%

- 3.8.2 As evidenced in the table above, there has been a marked improvement over the year with regards to the issue of draft and final reports following the completion of audit fieldwork. At the mid year point, we were able to advise the Audit Committee that significant advances had been made concerning the more timely generation and circulation of audit reports and this has continued during the second half of the year. The Internal Audit Services contractor has worked hard during 2009/10 to align service provision with contract targets set in respect of performance.
- 3.8.3 In terms of the percentage of recommendations accepted by management linked to 2009/10 audits, it is also pleasing to note that 96.4% of recommendations received endorsement and only 3 proposed recommendations were disputed from a total of 84 recommendations originally put forward.
- 3.8.4 In addition to the contractual indicators listed at paragraph 3.8.1, a further 3 performance indicators are employed to monitor the quality of the audit service being delivered. It is noted that the average time elapsing between finalisation of audit briefs and commencement of audit fieldwork is 20.35 days (a greatly enhanced level of performance compared with the 10 days specified in the Internal Audit Services Contract). Working days between expected completion of audit fieldwork and actual completion of audit fieldwork is similarly monitored to vouch that client disruption is kept to a minimum when undertaking individual audits. This indicator operates to secure, as far as possible, completion of fieldwork as planned to avoid impacting on auditee workloads any more than is absolute necessary.
- 3.8.5 The final indicator that is used to measure Internal Audit performance is post audit feedback obtained from auditees upon finalisation of audit reports. The number of responses received from client officers during the year is the best that we have ever had, since encouraging staff to comment on the quality of audits provided in their service areas. Taking average scores, where 10 is the maximum that can be awarded and bearing in mind that we aim to achieve an overall assessment of 8 or more, we have obtained the following marks in the 4 key areas that are surveyed:
- Planning – 8.63
 - Conduct of the audit – 8.02
 - Audit reporting and arrangements – 8.18
 - Recommendations – 7.86
- Overall Rating achieved - 8.20 out of 10.

3.9 Review of High Priority Rated Audit Recommendations

- 3.9.1 It is important to ensure that audit recommendations which have been accepted by officers are then implemented within the deadline dates agreed, if the internal control environment is to steadily improve. To support the Audit Committee in its role of overseeing the implementation of agreed actions, the current position regarding those recommendations rated as high priority are listed in the table below.

Number of high priority recommendations due for implementation by 31 March 2010	39
Number actually implemented	37

3.9.2 As can be seen in the table above, 94.9% of the high priority recommendations have been fully actioned. This is a considerable improvement on last year's position when it was reported that 65% of high priority recommendations had been implemented. The remaining 5.1% applying to the financial year 2009/10 relate to recommendations that are in the process of being actioned, and were essentially partially complete by 31 March 2010.

3.9.3 A detailed analysis of recommendations agreed, implemented, partially implemented, not actioned, or yet to reach the target dates for their completion, can be found in a separate report to this Annual Report.

3.10 Options

3.10.1 To receive and note the contents of this report in relation to Internal Audit activity and performance in 2009/10, and, the opinions expressed with reference to the systems of internal control and risk management, and arrangements for corporate governance.

3.10.2 To ensure that the opinions given in this report are acknowledged in Breckland Council's Annual Governance Statement for 2009/10.

3.11 Reasons for Recommendation(s)

3.11.1 The remit of the Audit Committee includes a duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk. There is a further duty to consider the Annual Report of the Head of Internal Audit, which, in turn, informs the Council's Annual Governance Statement for 2009/10.

4. Risk and Financial Implications

4.1 Risk

4.1.1 I have considered the appropriate risks when compiling this report, and commented upon their impact in the report, as they apply to the system of internal control, risk management and corporate governance.

4.2 Financial

4.2.1 None

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 The matters raised in this report fall within the following Council priorities:

- A safe and healthy environment
- A well planned place to live which encourages vibrant communities
- A prosperous place to live and work.

The outcomes of Internal Audit activity during 2009/10 should support the Council in the delivery of its business activities and the ongoing improvement of the internal control environment in which services operate, and hence, contribute to the overall achievement of the Council's priorities.

8. Ward/Community Affected

8.1 Not applicable.

Background Papers

Not applicable

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Key Decision Status (Executive Decisions only):

*This is **NOT** a Key Decision*

Appendices attached to this report:

Appendix 1: *Review Work delivered in accordance with the Annual Audit Plan for 2009/10 Management*

Appendix 2: *Abridged Management Summaries relating to Reviews completed by Deloitte Public Sector Internal Audit Ltd*

- *Appendix 2 (1) BRK/10/06 Data Quality / Performance Indicators*
- *Appendix 2 (2) BRK/10/07 Environmental Health*
- *Appendix 2 (3) BRK/10/08 Partnerships*
- *Appendix 2 (4) BRK/10/09 Housing and Council Tax Benefits*
- *Appendix 2 (5) BRK/10/10 Accountancy Services*
- *Appendix 2 (6) BRK/10/11 Treasury Management*
- *Appendix 2 (7) BRK/10/12 Sundry Debtors*
- *Appendix 2 (8) BRK/10/13 Anglia Revenues Partnership Governance*
- *Appendix 2 (9) BRK/10/14 Corporate Governance and Risk Management*
- *Appendix 2 (10) BRK/10/15 Receipt, Handling and Banking of Remittances*
- *Appendix 2 (11) BRK/10/18 Software Licensing*
- *Appendix 2 (12) BRK/10/20 IT Security, Procurement and End User Controls*

Appendix 3: *Definitions/Categories of Audit Opinions relating to Individual Audit Assignments*

Appendix 4: *Mapping of Assurance Levels given in respect of Individual Audit Assignments over 3-Year Timeframe*