

# Eastern Internal Audit Services



## BRECKLAND DISTRICT COUNCIL

### Annual Report and Opinion 2019/20

Responsible Officer: Emma Hodds – Head of Internal Audit for Breckland DC

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## 1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.2 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive to provide a written report to those charged with governance (known in this context as the Governance and Audit Committee) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2019/20, together with reasons if the opinion is unfavourable;
  - A summary of the internal audit work carried out from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
  - Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
  - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA’s Statement on the Role of the Head of Internal Audit.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s Annual Governance Statement, but there are also a number of other important sources to which the Governance and Audit Committee and Statutory Officers of the Council should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

## 2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

### 2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with Executive Management Team and key stakeholders and then approved by the Governance and Audit Committee at its meeting on 15 February 2019. Any justifiable amendments that are requested during the year are discussed and agreed with senior management and reported through to Committee. This opinion does not imply that internal

audit has reviewed all risks and assurances, but it is one component to be considered during the preparation of the AGS.

The Governance and Audit Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

## 2.2 The opinion itself

- The overall opinion in relation to the framework of governance, risk management and controls at Breckland District Council is **reasonable**.
- It is important to recognise that the specific areas of; asset management, accountancy services, accounts receivable, income, key controls and assurance, Breckland Bridge, remote access and ARP enforcement received a substantial assurance grading.
- No Limited assurance reports have been raised in 2019/20. With this considered a reasonable governance, risk management and control framework is indicated with no issues raised that are deemed significant to highlight in the Council's Annual Governance Statement.
- In providing the opinion the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.
- The opinion has been discussed with the Section 151 Officer and members of the Executive Management Team prior to publication.

## 3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;
- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

### 3.3 **Summary of the internal audit work**

The work undertaken by internal audit services (TIAA Ltd) in 2019/20 has covered a wide range of services and has resulted in both assurance opinion reports being concluded and suggested improvements made through position statements.

Internal Audit has issued 12 assurance reports in final, with 12 of these assurances being positive (seven substantial assurance) and (five reasonable assurance). The following two reports: Procurement and Contract Management - Reasonable, Disaster Recovery – Reasonable, have been issued in draft but are awaiting management responses due to the

impact that the Coronavirus Pandemic has had on the Council and Officers being redeployed to urgent matters.

Internal Audit has also provided advice and guidance in the areas of Strategic Enforcement and IT Strategy. The conclusions were reported to management in a Position Statement, providing suggested actions and improvements.

The Executive Summary of all finalised reports have been presented to the Governance and Audit Committee, ensuring open and transparent reporting and enabling the Committee to review key service area controls and the conclusions reached.

The changes to the internal audit plan for 2019/20 are included below:

Audit description	Nature of the change
Private Sector Housing	A peer review was undertaken of the service in 2019 and several recommendations made as a result of this review are being actioned by management. It was therefore been requested that the review be deferred until 2020/21.
CRM – replaced with IT Strategy	This audit was deferred from the 2018/19 plan to allow both Councils to work on implementation. A position statement on IT Strategy was brought forward and requested by management to provide advice and guidance on areas where improvements could be made.
Office 365	This audit was deferred from the 2018/19 plan to allow both Councils to work on implementation. This product has not yet been installed. Internal Audit is receiving updates from the Technology Board in relation to implementation and will defer this review until this work has been completed.

All rationale and reasoning for changes to the 2019/20 Internal Audit Plan have been presented to the Committee through Internal Audit Progress Reporting throughout the year. Overall, the 2019/20 plan has been reduced by 16 days to take account of the needs of the business and to ensure the Internal Audit Service was able to add value where required.

3.4 West Suffolk Internal Audit Services has concluded on the ARP reviews for 2019/20. The reports provided are reviewed by the Head of Internal Audit for Breckland DC and reliance placed on the work. The overall gradings for these areas are as follows: Council Tax Reasonable, Overpayments Reasonable, National Non-Domestic Rates Reasonable, Benefits Reasonable, ARP Enforcement Substantial.

3.5 **Follow up of management action**

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 24 audit recommendations raised by TIAA and agreed by management in 2019/20, 17 have been actioned by management and two are not yet due.

The remaining five are outstanding; two is important and three are needs attention priority.

A further 10 (five important, five needs attention) recommendations are awaiting management agreement. As explained above, this delay in finalising reports is attributed to the impact that the Coronavirus Pandemic has had on the Council.

A total of seven recommendations remain outstanding from 2017/18, three of these are important priority, four are needs attention priority. A total of 20 recommendations (four important, 16 needs attention) remain outstanding from 2018/19.

In relation to the outstanding recommendations, management have provided updates where possible as to the progress made to date to address the control weaknesses and provided new deadline dates.

ARP audits have resulted in 32 (one urgent, 31 important) recommendations being raised across all Council's audited.

### **3.6 Issues for inclusion in the Annual Governance Statement**

Looking back on the issues raised in the 2018/19 Head of Internal Audit Annual Opinion, we are pleased to report that all urgent and important recommendations raised as part of historical limited assurance reports have now been implemented except for Cyber Security. A limited assurance grading was raised in this area in 2017/18 and three important recommendations remain outstanding. We are however satisfied that regular updates on progress are being provided and infrastructure improvements are decreasing the risks raised. A subsequent audit during 2018/19 in this area gave a reasonable assurance grading. We therefore do not feel that this needs to be highlighted in the Council's Annual Governance Statement.

Overall in 2019/20 a total of 11 EIAS reports have been finalised, which have all been given positive assurance. No urgent priority recommendations remain overdue from historical limited assurance reports. All five ARP reviews carried out in 2019/20 have also resulted in positive assurance gradings. We therefore do not have any significant issues to present for inclusion in the Council's Annual Governance Statement for 2019/20.

## **4. THIRD PARTY ASSURANCES**

- 4.1 In arriving at the overall opinion reliance has been placed on third party assurances provided by West Suffolk Internal Audit Services, East Suffolk Internal Audit Services and Fenland Internal Audit Services. Protocols are in place to enable this in so much as all audit work programmes are shared with the Head of Internal Audit before the start of the audit and on conclusion of the audit and draft report is provided for review and comment. This approach enables input into the scope of the audit to ensure that all pertinent areas are covered it also enables a detailed review of the work that has been undertaken and to agree with the conclusions that are reached and the recommendations that are raised. This is the eighth financial year that these arrangements have been in place and they continue to work well.

## **5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**

### **5.1 Quality Assurance and Improvement Programme (QAIP)**

#### **5.1.1 Internal Assessment**

A checklist for conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note has been completed for 2019/20. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence

and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

On conclusion of completion of the checklist conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

The detailed internal assessment checklist has been forwarded to the Section 151 Officer, and their Deputy, for independent scrutiny and verification.

#### 5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the last review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that ***“the internal audit service conforms to the professional standards and the work has been performed in accordance with the Internal Professional Practices Framework”***. Thus, confirming conformance to the required standards.

The external assessment report has previously been provided to the Section 151 Officer, their Deputy and the Governance and Audit Committee.

## 5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against several performance indicators as agreed by the Governance and Audit Committee.

Actual performance against these targets is outlined within the following table:

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Good	Achieved
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Achieved
<u>Internal Audit Process</u>				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	100%	Achieved
4. Quarterly assurance (performance) reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	75%	Not achieved – Q3 report received one working day after the deadline.
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)	Ongoing	100%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards	Annual	Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	Ongoing	100%	100%	Any issues raised have been promptly addressed.
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)	Ongoing	Adequate	Good	Exceeded, 5 responses received.
9. Percentage of recommendations accepted by management	Ongoing	90%	100%	Exceeds
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter	Quarterly	60%	100%	Exceeds
11. Number of training hours per member of staff completed per quarter	Quarterly	1 day	1 day	Achieved

5.2.2 It is encouraging to note that 10 out of a possible 11 performance measures have been achieved, with three of these exceeding targets. Questionnaire responses from Officers following each internal audit has been less than in previous years. To ensure that we obtain

higher levels of feedback we will be working with the Performance Risk and Audit Board in 2020/21 to ensure that requests for feedback are actioned.

We experienced a delay in the issue of the performance report from the contractor in Q3, however the contractor sent this through the next working day after the deadline. All 2019/20 Internal Audit work was complete and issued in draft to management for consideration by 26 March 2020 despite the significant pressures caused by the Coronavirus Pandemic.

As mentioned above, unfortunately due to the impact of the Coronavirus Pandemic it has not been possible for the contractor to finalise three 2019/20 internal audit reports in time for this Committee meeting due to management being redeployed to urgent Council matters.

### **5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA**

5.3.1 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 Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- 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 Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

The detailed checklist has been forwarded to the Section 151 Officer, and their Deputy, for independent scrutiny and verification.



## APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2019/20

Audit Area	Assurance Level	Number of Recs	Implemented	Outstanding			Not yet due
				P1	P2	P3	
Strategic Enforcement	Position Statement						
Building Control	Reasonable	6	6	0	0	0	0
Planning	Reasonable	5	4	0	1	0	0
Environmental Protection	Reasonable	3	2	0	0	1	0
Asset Management	Substantial	3	1	0	0	1	1
Corporate Plan, Performance	Reasonable	4	4	0	0	0	0
Accountancy Services	Substantial	0	0	0	0	0	0
Accounts Receivable	Substantial	0	0	0	0	0	0
Income	Substantial	1	0	0	0	1	0
Breckland Bridge	Substantial	0	0	0	0	0	0
Corporate Governance	Reasonable	2	2	0	1	0	1
Procurement & Contract Management DRAFT	Reasonable	6					6
Key Controls and Assurance	Substantial	0	0	0	0	0	0
IT Strategy	Position Statement						
Disaster Recovery DRAFT	Reasonable	4					4
Remote Access	Substantial	0	0	0	0	0	0
<b>Total</b>		<b>34</b>	<b>17</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>12</b>

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	7
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	7
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	0
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

In addition to the above, West Suffolk Internal Audit Section completed the following audits to support the annual opinion:

<b>Description of the audit</b>	<b>Assurance level awarded</b>	<b>No of recommendations</b>
Council Tax	Reasonable	Eight important
Overpayments	Reasonable	Three important
National Non-Domestic Rates	Reasonable	Seven important
Benefits	Reasonable	Ten important
ARP Enforcement	Substantial	Two important

## APPENDIX 2 ASSURANCE CHART

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Annual Opinion / Corporate Audits</b>					
Corporate Governance	Substantial	Reasonable	Reasonable	Reasonable	Reasonable
Risk Management	n/a	Postponed to 2017-18	Substantial		
Transformation Programme		n/a	Position Statement		
Corporate Performance and Corporate Plan	Substantial		Substantial		Reasonable
Procurement & Contract Management		n/a		Limited	Reasonable
ARP Governance				Reasonable	
Key Controls and Assurance	Reasonable	Substantial	Reasonable	Substantial	Substantial
<b>Fundamental Financial Systems</b>					
Accounts Receivable	Reasonable		Substantial		Substantial
Income / Remittances	Substantial		Reasonable		Substantial
Accountancy Services	Substantial		Substantial		Substantial
Housing and Council Tax Benefit*	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Council Tax*	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
National Non-Domestic Rates*	Reasonable	Limited	Reasonable	Reasonable	Reasonable
Overpayments*			Reasonable	Reasonable	Reasonable
ARP Enforcement*			Reasonable	Substantial	Substantial
Accounts Payable		Substantial		Substantial	
Payroll / HR		Reasonable		Limited	

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Service Area Audits</b>					
Breckland Bridge		Substantial			Substantial
Economic Development				Reasonable	
Asset Management		Substantial			Substantial
Delivery Unit Team				Position Statement	
Development Management / Planning	Reasonable		Reasonable		
Building Control	Limited		Reasonable		Reasonable
CAPITA Performance Information	Limited				Reasonable
Housing needs, allocation, homelessness, housing register and PSH		Limited		Limited	
Disabled Facilities Grants and discretionary improvement grants					
Private Sector Housing - Empty Homes, HMOs, Enforcement			Limited		
Strategic Housing includes New Homes Bonus, Affordable Housing Initiatives, Home Options		Reasonable			
Marketing / Communications					
Branding		Reasonable			
Democratic Services	Substantial			Reasonable	
Elections and Electoral Registration			Reasonable		
Data Protection, FoI, Complaints					
Environmental Services (contaminated waste 1617)	Substantial	Reasonable	Reasonable		
Licensing and Business Support		Reasonable			
Corporate Health & Safety		Reasonable			
Community Safety	Reasonable		Substantial		
Localism and Communities					
Leisure and Facilities	Substantial				
Strategic Enforcement					Position Statement
Environmental Protection			Limited		Reasonable
Food, Health and Safety				Reasonable	

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>ICT Audits</b>					
Business Continuity					
Firewalls					
Telecoms / VOIP					
Disaster Recovery, Back Up and Data Centre	Limited				Reasonable
Virtualisation					
BACS Transfer system					
Payroll / Human Resources iTrent System					
Software Licence Management	Limited			Reasonable	
Starters, Leavers & Movers	Reasonable				
Patch and Change Management	Limited				
Network Security and Infrastructure	Reasonable			Position Statement	
ISO:27001:2013 Gap Analysis		n/a			
Content Management		Limited			
IT Project Delivery			Reasonable		
Cybersecurity			Limited	Reasonable	
Customer Relationship Management Application					
IT Strategy					Position Statement
Remote Access					Substantial
Office 365					
Service Desk				Substantial	

## **APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES**

### **Limitations inherent to the Internal Auditor's work**

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Governance and Audit Committee, subject to the limitations outlined below.

### **Opinions**

The opinions expressed are based solely on the work undertaken in delivering the approved 2019/20 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

### **Internal Control**

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. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### **Future Periods**

Internal Audit's assessment of controls relating to Breckland District Council is for the year ended 31 March 2019. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

### **Responsibilities of Management and Internal Auditors**

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be a substitute for management's responsibilities for the design and operation of these systems.

The Head of Internal Audit has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and TIAA's examinations as the Council's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.