

**NORFOLK AUDIT SERVICES AND
NORWICH CITY COUNCIL AUDIT AND CONSULTANCY SERVICES
JOINT ANNUAL REPORT 2009-10
ON THE NORWICH HIGHWAYS AGENCY JOINT COMMITTEE**

**Joint Report by Norfolk County Council Head of Finance and Norwich
City Council Head of Finance**

This Committee Report summarises the internal audit work carried out in 2009-10, reports on internal audit performance, provides assurance that financial, non-financial controls and risk management arrangements exist and are effective and provides details of the relevant sections of the 2010-11 internal audit plan.

It is recommended that the Committee should:

- Note the Internal Audit Annual Report for 2009-10 and the key message :

Based on an analysis of the audit work carried out and reports issued, Internal Audit can assure Committee that, the adequacy and effectiveness of internal control and risk management during 2009-10 was acceptable.

- Note that the systems of internal audit are adequate and effective during 2009-10 for the purpose of the latest regulations, subject to the City Council's completion of the action plan to address internal audit's non compliance with auditing standards.
- Note the content of the 2010-11 audit plan from the Internal Audit Annual Plan and that the risks of fraud and corruption have been reviewed in light of the economic downturn and resources are considered adequate for 2009-10 and planned for 2010-11.

Internal audit work continues to evolve to cover all areas of risk as well as traditional financial audit. Audit planning is partly based upon risk assessments and therefore internal audit is auditing higher risk areas.

1 Introduction

- 1.1 The Norwich Highways Agency Joint Committee (NHAJC) oversees the operation of the Norwich Highways Agency, within which Norwich City Council acts as agent in delivering highways functions on behalf of Norfolk County Council.
- 1.2 The Accounts and Audit (Amendment) Regulations 2006 require government bodies to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. The Regulations also require an annual review by the body of the effectiveness of its system of internal audit. This report fulfils that requirement.
- 1.3 Norfolk Audit Services (NAS) and Norwich City Council Audit and Consultancy Services are jointly responsible for internal audit of the NHAJC. NAS internal audit responsibilities cover the governance, control and risks relating to the County Council's role as commissioner, whereas the City Council role covers the City's role as agent.
- 1.4 Internal audit's role is to ensure that there is :
 - compliance with the Norwich City Council Financial Regulations and departmental rules and procedures.
 - compliance with the Highways Agency Agreement and any supporting guidance.

Where such compliance does not exist, they make recommendations to ensure that proper controls are in place. Some audits carried out are based on the perceived risk to the Committee, whilst others may be requested by the Committee.

- 1.5 The joint Internal Audit Annual Report is attached at Appendix A.

2 Internal Audit Annual Report

- 2.1 The key messages from the report are:
 - Based on an analysis of the audit work carried out and reports issued, Internal Audit can assure Committee that, the adequacy and effectiveness of internal control and risk management during 2009-10 was acceptable.
 - Note that the systems of internal audit are adequate and effective during 2009-10 for the purpose of the latest regulations, subject to completion of the action plan to address the City Council's internal audit's non compliance with auditing standards.

- Note the content of the 2010-11 audit plan from the Internal Audit Annual Plan.
- Note that internal audit work continues to evolve to cover all areas of risk as well as traditional financial audit. Audit planning is partly based upon risk assessments and therefore internal audit is auditing higher risk areas.
- Although no specific audits were planned by the City Council's Audit Service or Norfolk Audit Services on the Highways Agency Agreement, an audit by Norfolk Audit Services on the Highways works ordering and payment management system commenced in February 2010 and a final report is planned to be issued by 30 June 2010.
- Audit plans for 2010-11 have been agreed with the Director of Environment, Transport and Development, Norfolk County Council. A draft audit plan for Norwich City Council has been prepared for their Audit Committee, but will not be finalised until further information on service risks is received after completion of service plans. At this stage the draft plan does not contain a specific audit of the Highways Agency.
- Action plans are in place to strengthen the matters reported by the Audit Commission during the year.

3 Ongoing Maintenance of Internal Controls

- 3.1 The ongoing maintenance of controls for the Highways Agency Agreement rests with the Director of Environment, Transport and Development, Norfolk County Council and the Director of Regeneration and Development, Norwich City Council who will monitor their controls and ensure that policies, procedures and documents are kept up to date. Internal Controls are agreed with the Audit Commission.
- 3.2 The responsibility for the prevention and detection of the risk of fraud and corruption rest with Chief Officers.
- 3.3 The adequacy of the anti fraud and corruption arrangements have been considered as a result of the economic downturn and have been strengthened in 2010-11.

4 Risk Management

- 4.1 This report has fully taken into account any relevant issues arising from the policy and strategy for risk management of Norwich City Council, as relied upon by the Committee.

5 Resource and Other Implications

- 5.1 Resource implications will be managed on a risk assessed basis. The Norwich Highways Joint Committee will be notified of any significant major changes.
- 5.2 Resources are currently considered adequate.

6 Conclusion

- 6.1 The Committee should note that based on the audits carried out for 2009-10, internal controls and risk management are adequate and effective.
- 6.2 The Committee should note that the systems of internal audit have been considered by the Chief Officers and were adequate and effective during 2009-10 for the purpose of the latest regulations, subject to the City Council's completion of the action plan to address internal audit's non compliance with auditing standards.
- 6.3 The Internal Audit opinion is based upon:
 - final reports issued in the year
 - the results of other work carried out by internal audit during the year.
- 6.4 The Committee should note that the respective audit plans for 2010-11 have been agreed with the Director of Environment, Transport and Development, Norfolk County Council, Director of Regeneration and Development, Norwich City Council. The adequacy of the anti fraud and corruption arrangements have been considered as a result of the economic downturn and resources are considered to be adequate.
- 6.5 Action plans are in place to strengthen the matters reported by the Audit Commission during the year.

7 Section 17 Crime and Disorder Act

- 7.1 Internal Audit work is planned in order to cover the higher risk areas including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits. Audits help to prevent, detect and investigate possible fraud.
- 7.2 Internal Audit work continues to evolve to cover all areas of risk as well as traditional financial audit. The resources for the prevention and detection of fraud and corruption are considered to be adequate.

- 7.3 Under section 17 of the Crime and Disorder Act the Councils have a statutory general duty to take account of the crime and disorder implications of all of its work down to a local level, and do all that it reasonably can to prevent crime and disorder in Norfolk.

8 Alternative Options

- 8.1 There are no alternative options for the Committee to consider.

9 Recommendation

- 9.1 It is recommended that the Committee should note:

- the Internal Audit Annual Report for 2009-10 and the key message :

Based on an analysis of the audit work carried out and reports issued, Internal Audit can assure Committee that, the adequacy and effectiveness of internal control and risk management during 2009-10 was acceptable.

- that the systems of internal audit are adequate and effective during 2009-10 for the purpose of the latest regulations, subject to the City Council's completion of the action plan to address internal audit's non compliance with auditing standards.
- the content of the 2010-11 audit plan from the Internal Audit Annual Plan.
- that internal audit work continues to evolve to cover all areas of risk as well as traditional financial audit. Audit planning is partly based upon risk assessments and therefore internal audit is auditing higher risk areas.
- that action plans are in place to strengthen the matters reported by the Audit Commission during the year.

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**NORWICH HIGHWAYS AGENCY JOINT COMMITTEE
INTERNAL AUDIT ANNUAL REPORT
2009-10**

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1. Introduction

- 1.1 The Norwich Highways Agency Joint Committee (NHAJC) oversees the operation of the Norwich Highways Agency, within which Norwich City Council acts as agent in delivering highways functions on behalf of Norfolk County Council.
- 1.2 The Local Government (Accounts and Audit) (Amendment) Regulations 2006 require government bodies to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. The Regulations also require an annual review by the body of the effectiveness of its system of internal audit. This report fulfils that requirement.
- 1.3 Norfolk Audit Services (NAS) and Norwich City Council Audit and Consultancy Services are jointly responsible for internal audit of the NHAJC. NAS internal audit responsibilities cover the governance, control and risks relating to the County Council's role as commissioner, whereas the City Council role covers the City's role as agent. As an agent for the agency agreement Norwich City Council's systems and records support the Highways Agency Systems. Those systems will be subject to the overall internal audit arrangements reported to the City's Audit Committee over the year.
- 1.4 Internal audit's role is to ensure that there is:
 - compliance with the Norwich City Council Financial Regulations and departmental rules and procedures.
 - compliance with the Highways Agency Agreement, Norfolk County Council financial regulations and procedures and any supporting guidance.

Where such compliance does not exist, they make recommendations to ensure that proper controls are in place. Some audits carried out are based on the perceived risk to the Committee, whilst others are requested by the Committee.

- 1.5 NAS and Norwich City Council Audit and Consultancy Services and produce this annual report for the Norwich Highways Agency Joint Committee. This Internal Audit Annual Audit Report details the overall opinion on internal control and risk management of the Committee and details the level of audit coverage for the Committee for the year in question. This report details any audit work carried out and the opinion given to individual audits from April 2009 to March 2010.
- 1.6 During the year to March 2010, internal audit reported detailed reports on every audit to their respective Audit Committee, including where necessary, an audit opinion and an agreed action plan.

2. Audit Opinion Explanation

- 2.1 Each internal audit team has their specific process of auditing and arriving at an audit opinion.
- 2.2 The NAS overall audit opinion is based on work undertaken during the year. Each report has one of two possible grades, which are explained in the table below:

Opinion	Assessment of internal control	Action required from the recipient – as agreed with the auditors
Acceptable	Few or no weaknesses, mostly insignificant	Remedial action required within six months
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses	Remedial action required immediately or within six months

- 2.3 Norwich City Audit and Consultancy Services categorise findings into:

- Moderate – few or no weaknesses, mostly insignificant
- Limited – a number of significant or major weaknesses.

3. Key messages

- 3.1 Our combined overall opinion on internal control:

Based on an analysis of the audit work carried out and reports issued, Internal Audit can assure the Committee that the adequacy and effectiveness of internal control and risk management for the Committee during 2009-10 was acceptable.

- 3.2 The combined audit coverage:

The work of internal audit continues to evolve to cover all areas of the Committee. Some audits are carried out based on the perceived risk to the Committee, whilst others may be requested by the Committee.

- 3.3 The combined key messages to note from the year are:

- The Committee's systems of internal audit were effective during 2009-10 for the purposes of the latest regulations. However, the Audit Commission's triennial review of the City Council's internal audit service found weaknesses against the Code of Practice, for which an action plan has been drafted.
- The work of Internal Audit continues to evolve to cover all areas of risk as well as traditional financial audit. Audit planning is partly

based upon risk assessments and therefore internal audit is auditing higher risk areas.

4 Joint Committee Internal Audit Work

4.1 Details of audits performed in 2009-10 are given below:

- The City Council's Audit Service did not carry out any further Highways Agency related work in 2009-10, following a satisfactory follow up in 2008-09 on the previous audit.
- Although no specific audits were planned by the City Council's Audit Service or Norfolk Audit Services on the Highways Agency Agreement, an audit by Norfolk Audit Services on the Highways works ordering and payment management system commenced in February 2010 and a final report is planned to be issued by 30 June 2010.

4.2 It is considered that on a risk assessed basis this work provides a reasonable basis to draw a representative opinion, as a sufficient amount of work has been completed.

4.3 Internal audit provide reassurance on the adequacy of systems and processes that are relied upon by the Highways Agency Agreement or report audit findings and recommendations.

4.4 The Annual Audit report for Norfolk County Council will be reported to the June Audit Committee.

5 2010-11 Audit Plan

5.1 No specific audits are planned by the City Council's Audit Service or Norfolk Audit Services on the Highways Agency Agreement.

6 Review of Effectiveness of Systems of Internal Audit

6.1 The Accounts and Audit (Amendment) (England) Regulations 2006 require the effectiveness of it systems of internal audit to be reviewed annually. There is currently no guidance or good practice available for meeting this requirement. Informal advice from CIPFA and discussions with other local authorities provided various options for reviewing the effectiveness of the system of internal audit.

6.2 For the purposes of this annual review the elements of the Norwich Highways Agency Agreement systems of internal audit and the assurance on their effectiveness is derived as follows:

- Internal audit – the annual plan and work of internal audit

The results of internal audit work for 2009-10 have been summarised in section four. A review of NAS compliance to the new Code of Practice

2006 for internal audit in local authorities confirmed that it was satisfactory except for a few minor areas where action plans have been agreed.

The Audit Commission's triennial review of the City Council's internal audit service found weaknesses against the Code of Practice for Internal Audit 2006. An action plan to address these weaknesses has been drafted and will be reported as part of the City Council's Annual Governance Statement.

- Management processes of checking, reconciliation's, supervisions and controls

The NAS and Norwich City Council Audit and Consultancy Services annual internal audit plans include both Councils' main systems on a rotational basis and our opinion on these is Acceptable (section three).

- 6.3 The Monitoring Officer (Norfolk County Council) prepares an annual report for the Audit Committee. This report summarises the key work carried out in 2009-10 and provides assurance that the organisation's control environment, in the areas which are the responsibility of the Monitoring Officer, were adequate and effective. This annual report supports the assurance statements included in the Annual Governance Statement.
- 6.4 The City Council Head of Finance has not identified any other significant governance issues to us beyond those already reported in the Annual Governance Statement.
- 6.5 The Audit Commission's Annual Governance Report for the Joint Committee's Audit in 2006-07, issued March 2010, was considered at the 27 May 2010 meeting of the Committee. The report included an action plan to fully address the failure to put in place arrangements at that time:
- to maintain a sound system of internal control
 - to manage its significant business risks
 - for managing its performance against budgets.

7 Working with the Audit Commission

- 7.1 NAS and Norwich City Council Audit and Consultancy Services have very good working relationships with the Audit Commission and their work is planned and co-ordinated to maximise the benefit of all audits to the Committee.

8 Responsibilities in relation to fraud

- 8.1 Each Internal Audit team's risk based audit planning includes work that will help prevent, detect, investigate and prosecute fraud risks. The risks of fraud and corruption have been reviewed in light of the

economic downturn and the resources are considered to be adequate in 2009-10 and planned for 2010-11.

- 8.2 During the year internal audit teams have reviewed the internal controls and risk management of each Council's main financial systems. Those systems cover the transactions, balances and assets of this Committee. That work and the assurance it provides helps this Committee to reasonably assess the risk that the financial statements are not materially misstated due to fraud.
- 8.3 The Internal Audit teams have planned and delivered audits during the year which include reasonable measures to detect fraud and to give assurance on internal controls that would prevent it. Reports on the audit findings clearly set out those findings which increase the risk of fraud and whose responsibility it is to ensure that recommendations are completed.
- 8.4 The Councils have Anti Fraud and Corruption Strategies which cover the scope of this Committee. The strategies have been applied where appropriate throughout the year and any significant fraud investigations have been reported where they have been completed. There have been no frauds investigated for the services covered by this Committee. The Committee are therefore aware of the process for identifying and responding to the risks of fraud generally and of the specific risks of misstatement in the financial statements when they are asked to approve those Annual Financial Statements at the end of the year.
- 8.5 Actual fraud cases that have been fully investigated would be reported to each Council's Audit Committee. The Chairman would be informed of any significant fraud which had implications for this Committee. There have been no such cases during the last year. The Committee is therefore aware of the arrangements in place for Chief Officers to report about fraud to the Committee. The Committee would therefore have knowledge of actual or suspected fraud and the actions that Chief Officers are taking to address it if it were required.
- 8.6 The Anti Fraud and Corruption Strategy, Whistle blowing Strategy, Money Laundering Policy and the Standards of Conduct are promoted through staff newsletters and on each Council's Intranet site as well as through training for non financial managers. The Committee is aware of the arrangements Chief Officers have in place for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour. All managers in Norfolk County Council were issued with anti-fraud instructions.
- 8.7 Each Council's Audit Committee has responsibility for reviewing their Anti Fraud and Corruption arrangements. The County Council's Audit Committee has considered a revised Anti Fraud and Corruption Strategy in April 2009. This Committee receives this Annual Internal Audit Report, Risk Management reports and other reports from the Audit Commission giving assurance on the adequacy and effectiveness

of risk management an internal control, Anti Fraud and Corruption measures and of the governance and value for money arrangements. These assurances support the Annual Governance Statement that this Committee considers and approves. The Committee therefore oversees management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.

- 8.8 Based upon the work carried out this financial year, the internal controls and risk management relating to fraud are considered to be adequate and effective for the Highways Agency Agreement and the Committee.

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