

**Brighton & Hove  
City Council**

# **AUDIT COMMITTEE ADDENDUM**

**4.00PM, TUESDAY, 19 MAY 2009**

**COMMITTEE ROOM 1, HOVE TOWN HALL**



## **ADDENDUM**

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# Audit Progress Report

Brighton and Hove City Council

Audit 2008/09

May 2009



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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

# Summary report

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## Introduction

- 1 Our audit and inspection plan for 2008/09 was presented to the Audit Committee in June 2008. Within the plan we set out a number of areas of work and this report provides a summary of progress to date. Details of some work from the 2007/08 audit are also shown. Future reports to the Committee will include references to the 2009/10 audit year following the recent agreement of that year's work programme with officers.

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## Background

- 2 There is one outstanding review from 2007/08 which relates to Good Governance and there were two outstanding grant claims.
- 3 The audit and inspection plan for 2008/09 set out the following areas of work:
  - financial statements and Whole of Government Accounts;
  - value for money conclusion;
  - use of resources;
  - data quality; and
  - the National Fraud Initiative.

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## Audit & Inspection year 2007/08

### Use of resources 2007/08

- 4 The Good Governance review is now at draft report stage and is being discussed with officers. We intend to present the findings at the next Audit Committee meeting.

### Grant claims and returns 2007/08

- 5 Each year we are required to undertake work on behalf of third parties to certify claims and returns submitted by the Council. Our previous progress report noted that two claims had been delayed for reasons outside our control but they were certified in early 2009.

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**Audit & Inspection year 2008/09**

**Audit of the financial statements and Whole of Government Accounts 2008/09**

- 6 Our work is in progress and we expect to issue our opinion on the statements by the deadline of 30 September 2009. We have liaised with finance officers about the arrangements for the production of the statements and this has given rise to no specific concerns at this time. Our detailed work on the statements will start in late July 2009. The Whole of Government Accounts work is scheduled for completion before the October 2009 deadline.

**Value for money conclusion 2008/09**

- 7 Our conclusion will be issued with our opinion on the financial statements. It will be informed by our several elements of our work including the use of resources work that is being undertaken as part of the Commission's organisation assessment review which will be reported publicly late in 2009.

**Use of resources reviews 2008/09**

- 8 Our review of health inequalities across the City which involves the Council's NHS partners is progressing. We expect to feedback our findings to all bodies in the next two months and will update the Committee when this work is finalised.

**National Fraud Initiative**

- 9 The Council is reviewing possible data matches provided by the Commission. We continue to liaise with Internal Audit which is undertaken the required work.

**Update on audit fees 2008/09**

- 10 The audit and inspection fees for 2008/09 totalled £394,572 which were split between audit (£323,468) and inspection (£71,104). The housing inspection was not undertaken after consideration of the Council's position on housing resulting in a revised inspection fee of £24,634 and a revised total of £348,102.
- 11 We are required to review the audit fee formally as part of our opinion audit planning for 2008/09 before the main phase of the work starts. Based on the available information at this time, no change to the fee will be required. We will write to officers later this month and will update the Committee at its next meeting.

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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# Assurances to support the financial statements 2008/09

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Brighton & Hove City Council  
May 2009

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# Summary report

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## Introduction

- 1 External auditors are required to conduct their audit under the framework of the International Standards on Auditing (ISA). In several instances these standards require auditors to seek information formally from officers, which is coordinated through the Director of Finance & Resources, and 'those charged with governance' which are members of the Council's Audit Committee.
- 2 ISA260 details those matters that require us to request formal responses from officers and the Committee. With reference to the Committee we are specifically interested its views on the nature, extent and likelihood of any significant internal and external operational, financial, compliance or other risks facing the Council which might have an impact on the financial statements.
- 3 Other ISAs provide further detail to auditors on these key areas for consideration:
  - ISA 240 (The auditor's responsibility to consider fraud in the audit of financial statements);
  - ISA 250 (Consideration of laws and regulations in an audit of financial statements); and
  - ISA 570 (Going concern).
- 4 The following sections set out a summary of these three ISAs and set out the matters that the Committee should consider formally before responding to us as your external auditors. Details of the information we are seeking from officers is also provided for your information. Following the Committee's consideration of the matters below, the Chair is requested to write to the District Auditor setting out the Committee's views.

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## Fraud

- 5 To support our opinion on the financial statements we are required to obtain information under ISA 240:

### From the Audit Committee

- a description from the Committee of the way it exercises oversight of management's processes for identifying and responding to the risks of fraud, and how the internal control framework established by management has mitigate those risks; and
- whether the committee has any knowledge of any actual, suspected or alleged fraud affecting the Council.

## Assurances to support the financial statements 2008/09

### From officers

- an assessment of the risk that the financial statements may be materially misstated due to fraud;
- a description of management's processes for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified, or account balances, classes of transactions or disclosures in which a risk of fraud is likely to exist;
- officers' communication, if any, to the Committee regarding its processes for identifying and responding to the risk of fraud;
- officers' communication, if any, to employees regarding its views on business practices and ethical behaviour; and
- officers' knowledge of any actual, suspected or alleged fraud. Main conclusions

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### Laws and regulations

- 6 Under ISA 250 we are required to obtain an understanding of the legal and regulatory framework under which the Council operates:

#### From the Audit Committee

- an understanding of whether the Committee is on notice of any such possible instances of non compliance with laws or regulations.

#### From officers

- an understanding of the procedures followed by the Council to ensure compliance with laws and regulations.

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### Going concern

- 7 The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts. It is a key concept in the preparation of the financial statements and further information on the concern as this applies to the Council is shown at Appendix 1. Under ISA 570 we are required to obtain:

#### From the Committee

- 8 an explanation of the means by which the Committee satisfies itself that:
- the going concern basis should be used in preparing the financial statements; and
  - the financial statements contain such disclosures, if any, relating to going concern as are necessary for them to present fairly the financial position of the Council as its year end.

### From officers

- an assessment of the Council's ability to continue as a going concern.

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### Conclusion of the audit of the financial statements

- 9 Before we issue our audit opinion on the Council's financial statements for 2008/09, which is expected in September 2009, we will request a letter of representation from the Council. This letter should be signed by the Chair of the Committee after it has been considered formally by the Committee and by the Director of Finance & Resources. As part of this process it is expected that members and officers will consider the responses given at the start of the audit and update them as required.

# Appendix 1 - Accounting concept of going concern

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## Background

The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts). The going concern assumption is a fundamental principle in the preparation of financial statements, under which an entity is ordinarily viewed as continuing in business for the foreseeable future. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium and long term liabilities would become short term liabilities.

Councils are required to prepare their accounts in accordance with the relevant accounting rules, which are set out in the Accounting Standards Board's Financial Reporting Standards (FRSs), as interpreted by the relevant statement of recommended practice for local authority accounting (the SORP). The requirement to prepare accounts on a going concern basis is set out in FRS18: Accounting Policies, paragraphs 21 and 23 of which state:

"An entity should prepare its financial statements on a going concern basis, unless:

(a) the entity is being liquidated or has ceased trading; or

(b) the directors have no realistic alternative but to liquidate the entity or to cease trading,

in which circumstances the entity may, if appropriate, prepare its financial statements on a basis other than that of a going concern."; and

"When preparing financial statements, members should assess whether there are significant doubts about an entity's ability to continue as a going concern."

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## How is this applicable to councils?

In preparing their accounts in accordance with the SORP, councils must consider whether the going concern assumption is appropriate. This is generally dealt with as the annual budget is approved (Section 25 statement).

### The role of those charged with governance

When approving the accounts, those charged with governance will need to consider which of the following three basic scenarios is the most appropriate:

- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
- the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view; or
- the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

To enable those charged with governance to do this, management will need to report to them the process it has followed in forming a view on going concern and the assumptions on which that view is based. Those charged with governance should, where appropriate, challenge those assumptions, particularly where they are aware of any significant issues that do not appear to have been taken into account.

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# AUDIT COMMITTEE

## Agenda Item 115

Brighton & Hove City Council

<b>Subject:</b>	<b>Review of the Effectiveness of Internal Audit 2008/09</b>
<b>Date of Meeting:</b>	<b>19<sup>th</sup> May 2009</b>
<b>Report of:</b>	<b>Director of Finance &amp; Resources</b>
<b>Contact Officer:</b> Name:	<b>Ian Withers, Head of Audit &amp; Tel: 29-1323</b>
	<b>Business Risk</b>
	E-mail: <a href="mailto:ian.withers@brighton-hove.gov.uk">ian.withers@brighton-hove.gov.uk</a>
<b>Wards Affected:</b>	All

### FOR GENERAL RELEASE

The special circumstances for non-compliance with Council Procedure Rule 23, Access to Information Rule 5 and Section 100B(4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) are that there was delay in completing the review in particular members involvement. The Chairman of the Audit Committee had been consulted but is of the opinion the item should be considered at the meeting.

#### 1. SUMMARY AND POLICY CONTEXT:

- 1.1 The council is required under the Accounts & Regulations (Amended) 2006, to undertake an annual review of the effectiveness of its system of internal audit and for the outcome to be considered by a committee (the Audit Committee). The process is also to be regarded as part of the wider review of the council's governance arrangements which supports the Annual Governance Statement.
- 1.2 The requirement is relatively new and this is the second year undertaking, the first being for 2007/08.
- 1.3 This report provides the Audit Committee with an outline of the review and the resulting findings and actions.

#### 2. RECOMMENDATION:

It is recommended that the Audit Committee considers and comments on the Review of Internal Audit Effectiveness. To further note planned actions for improvement resulting from the review.

#### 3. BACKGROUND:

- 3.1 The Accounts and Audit Regulations 2006 (as amended) requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body or by members of the body as a whole, to consider its findings. Under the regulations, the standard for proper practices in relation to internal audit is set out in the 'Code of Practice for Internal Audit in Local Government (2006)'.

3.2 This is the second such review and accordingly this report sets out the actions taken to address the partial or non-compliance previously identified.

3.3 To be “effective” the system of Internal Audit shall aspire to:

- Provide credible and evidenced assurance to management on the operation of the internal control environment
- Provide appropriate advice and support to management to ensure efficiency, effectiveness and economy of their services and functions and to help them respond to new and emerging issues
- Act as a catalyst for change, add value and assist in achieving the authority’s objectives (i.e. solutions and impact in making a positive difference)
- Understand its position within the authority and plan and undertake its work accordingly, working in partnership with relevant stakeholders
- Help shape the ethics and culture of the organisation
- Utilise and target its resources efficiently and effectively

4. **PROCESS:**

4.1 As the ‘Code of Practice for Internal Audit in Local Government’ (CIPFA) 2006 (the Code) is considered proper practice for Internal Audit under the Accounts and Audit Regulations, we have reviewed Internal Audit against the checklist contained within the Code. The Code comprises eleven standards, thirty seven related areas and one hundred and ninety three specific questions to form the basis of assessment.

4.2 The Code’s eleven standards and thirty seven related areas is as follows:

Standards	Areas
Scope of Internal Audit	Terms of Reference
	Scope of Work
	Other Work
	Fraud & Corruption
Independence	Principles of Independence
	Organisational Independence
	Status of Head of Internal Audit
	Independence of Internal Audit Contractors
	Declarations of Interest
Ethics for Internal Auditors	Purpose
	Integrity
	Objectivity
	Competence
	Confidentiality

<b>Standards</b>	<b>Areas</b>
Audit Committees	Purpose of the Audit Committee
	Internal Audit's relationship with the Audit Committee
Relationships	Principles of Good Relationships
	Relationships with Management
	Relationships with Other Internal Auditors
	Relationships with External Auditors
	Relationships with Other Regulators and Inspectors
	Relationships with Elected Members
Staffing, Training and Continuing Professional Development	Staffing Internal Audit
	Training and Continuing Professional Development
Audit Strategy and Planning	Audit Strategy
	Audit Planning
Undertaking Audit Work	Planning
	Approach
	Recording Audit Assignments
Due Professional Care	Responsibilities of the Individual Auditor
	Responsibilities of the Head of Internal Audit
Reporting	Principles of Reporting
	Reporting of Audit Work
	Follow-up Audits and Reporting
	Annual Reporting and Presentation of Audit Opinion
Performance, Quality and Effectiveness	Principles of Performance, Quality and Effectiveness
	Performance and Effectiveness of the Internal Audit Service

- 4.3 The council is a member of the CIPFA Benchmarking Club for which data is submitted to provide comparisons with other Unitary Authorities. Data from the report provided was used to provide further evidence to support this review.
- 4.4 To provide greater challenge and assurance, arrangements have been made with the London Borough of Bromley and the London Borough of Bexley to carry out reciprocal peer group reviews of compliance with the Code. Observations and recommendations made are included in the full checklist against the Code and the summary at Appendix 1. A report has been provided by the London Borough of Bromley and attached at Appendix 2.

4.5 Further review was provided by two members of the Audit Committee whose observations and recommendations are also included in the full checklist against the Code and the summary at Appendix 1.

## **5. FINDINGS OF REVIEW:**

5.1 Overall it can be demonstrated that the council has an effective system of Internal Audit. There are in place a high number of the specific requirements to ensure a high level of compliance with the Code. Appendix 1 summarises the checklist for the eleven standards and thirty seven related areas

5.2 Overall Internal Audit is considered to be 97% compliant with the thirty seven areas of the Code. This has increased from 91%, in respect of the first review on the Effectiveness of Internal Audit carried out in 2007/08.

5.3 There are no areas of non compliance against the Code and only one area of partial compliance. The area of non compliance relates to the Recording of Audit Assignments and specifically document retention. To address this, the Document Retention Policy has already been reviewed and updated.

5.4 Although not considered to be significant in terms of impacting on compliance against the Code, actions have been identified and will be implemented for further improvement to the system of Internal Audit. These are:

- Implementation of CIPFA evaluation and planning tool, 'The Excellent Auditor' for staff skills and competencies
- Review and update protocol with external audit
- Review and update protocol with South Cost Audit (NHS)
- Consideration to the introduction of an audit trainee position
- Further risk based audit training in particular assurance to be provided to Internal Audit staff
- Updating of Audit Manual
- Updating of guidance for audit opinion for individual audit reviews and further training to be provided to Internal Audit staff
- Review process for updating risk registers following major audit findings and utilising the new risk management software (currently being implemented)
- Review skills required to add greater added value from audit work in particular contributing to the Business Transformation Agenda.

5.5 The Head of Audit & Business Risk will be responsible for ensuring the implementation of the action to achieve full compliance with the Code and actions for improvement.

## **6. FINANCIAL & OTHER IMPLICATIONS:**

### **6.1 Financial Implications:**

Any improvements identified within this review will need to be funded from within the existing Audit & Business Risk team resources. The 2009/10 revenue budget has been set with sufficient staffing budget to allow for a full Audit & Business Risk team

compliment. Available training budget, as well as likely savings through current staff vacancies, should allow sufficient resources to meet the training needs identified within the review.

*Finance Officer Consulted: Stuart Taylor*

*Date: 14<sup>th</sup> May 2009*

#### 6.2 Legal Implications:

The relevant statutory provisions are referred to in paragraphs 4.1 above.

*Lawyer Consulted: Elizabeth Culbert*

*Date: 14<sup>th</sup> May 2009*

#### 6.3 Equalities Implications:

When carrying out audit work, any equality issues identified are reported to the appropriate level of management. The Internal Audit Strategy and Annual Audit Plan recognises the council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

#### 6.4 Sustainability Implications:

When carrying out audit work, any sustainability issues identified are reported to the appropriate level of management.

#### 6.5 Crime & Disorder Implications:

When carrying out audit work, any crime and disorder issues identified are reported to the appropriate level of management.

#### 6.6 Risk and Opportunity Management Implications:

The preparation of the Internal Audit Strategy and annual Audit Plan has taken into account the adequacy, outcomes of the council's risk management and other assurance processes. The work of Internal Audit assists the council in improving controls to mitigate risks. The Annual Audit Plan will be flexible to take account of emerging risks and priorities of the council.

#### 6.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 – Summary
2. Report to the Director of Finance & Resources, Brighton & Hove City Council from Assistant Director, Audit & Technical, London Borough of Bromley

### **Background Documents:**

1. Accounts & Audit Regulations 2003 (Amended 2006)
2. CIPFA Code of Practice for Internal Audit in Local Government 2006 and checklist.
3. Internal Audit Strategy and Annual Audit Plan 2008/09
4. Internal Audit Charter

## Internal Audit Effectiveness Review 2008/09

## Compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 – Summary

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
<b>1</b>	<b>Scope of Internal Audit</b>					
1.1	Terms of Reference	Y			Terms of Reference contained in Internal Audit Charter which is reviewed and approved by Audit Committee on annual basis (last March 2009).	None
1.2	Scope of Work	Y			Scope of work clearly defined in Internal Audit Strategy and Annual Audit Plan 2008/09.	None
1.3	Other Work	Y			Skills and resources maintained.	None
1.4	Fraud & Corruption	Y			Arrangements in place principally within the Counter Fraud Strategy and Financial Regulation for the Head of Audit & Business Risk to be notified of all suspected or detected.	None
<b>2.</b>	<b>Independence</b>					
2.1	Principles of Independence	Y			Independence from activities audited and non-audit duties.	None
2.2	Organisational Independence	Y			Status, access rights, resourcing and reporting demonstrates effective organisational independence for Internal Audit. Only exception is the council protocol requiring committee reports to be Director's name not however considered to be significant.	None

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
2.3	Status of Head of Internal Audit	Y			Managed by member of corporate management team. Regular liaison meetings with Director on audit, control and risk issues.	None
2.4	Independence of Internal Audit Contact	Y			Planning practice recognises any potential conflict with ICT audit contractors (Deloitte & Touche). Currently does not exist as no ICT consultancy work carried out by same contractor.	None
2.5	Declarations of Interest	Y			All staff make annual declarations and when occur. Planning processes takes account of any conflict.	None
<b>3.</b>	<b>Ethics for Internal Auditors</b>					
3.1	Purpose	Y			All staff regularly reminded of their ethical responsibilities. Majority members of professional bodies therefore also subject to their codes.	None
3.2	Integrity	Y			Environment of trust and confidentiality exists and internal auditors demonstrate integrity in all aspects of their work.	None
3.3	Objectivity	Y			Internal auditors perceived as objective and free from conflicts of interest.	None
3.4	Competence	Y			Internal audit generally have sufficient, knowledge and skills to undertake audit work. Internal Audit currently use an in-house developed competency framework for staff learning and development but planning to implement the CIPFA evaluation and planning tool, 'The Excellent Auditor'.	Implementation of CIPFA evaluation and planning tool 'The Excellent Auditor' for staff skills and competencies.

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
3.5	Confidentiality	Y			Internal Audit staff are considered to understand their obligations in respect of confidentiality.	None
<b>4.</b>	<b>Audit Committee</b>					
4.1	Purpose of the Audit Committee	Y			Independent Audit Committee exists with Terms of Reference defining the purpose.	None
4.2	Internal Audit's relationship with the Audit Committee	Y			Audit Committee approves Internal Audit Strategy and Annual Audit Plan and monitors progress. Head of Audit & Business Risk is key officer for committee and co-ordinates workplan.	None
<b>5.</b>	<b>Relationships</b>					
5.1	Principals of Good Relationships	Y			Relationships defined in Internal Audit Charter and operated accordingly. Protocols with Audit Commission (external audit) exist but not recently reviewed.	Review and update protocol with External Audit.
5.2	Relationships with Management	Y			Internal Audit seek to maintain effective working relationships. Clear process for audit planning liaison (emerging risks, timings etc), attendance at DMTs etc.	
5.3	Relationships with Other Internal Auditors	Y			Regular liaison meetings with internal auditors from ESCC and South Coast Audit (Health Organisations). Joint audits undertaken as appropriate. Joint protocol with South Coast Audit exists but not recently reviewed.	Review and update protocol with South Coast Audit (NHS).
5.4	Relationships with External Auditors	Y			Regular liaison meetings held with Audit Commission where plans and issues are shared. Reliance placed on the work Internal Audit by Audit Commission.	None

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
5.5	Relationships with Other Regulators and Inspectors	Y			Dialogue exists via the Audit Commission Relationship Manager but limited requirement.	None
5.6	Relationships with Elected Members	Y			Good working relationships generally exist with members. Internal Audit Charter defines the channels of communication with members.	None
<b>6.</b>	<b>Staffing, Training and Continuing Professional Development</b>					
6.1	Staffing Internal Audit	Y			Internal Audit considered to adequately resourced but recognised at the minimum. Audit Plan risk based and under continuous review to maintain adequate coverage and ensure assurance can continue to be provided. Internal Audit staff are suitably qualified and experienced. Whilst the structure is well established, internal auditors are all graded at a 'professional level' with no trainee positions. Therefore it is difficult to recruit from lesser experienced, qualified and often local persons.	Consideration of introduction of an audit trainee position within the structure.
6.2	Training and Continuing Professional Development	Y			Strong emphasis within the team placed on training and developments. Team and individual plans maintained and under corporate accreditation for Investors in People.	None
<b>7.</b>	<b>Audit Strategy and Planning</b>					
7.1	Audit Strategy	Y			Part of Internal Audit Strategy and Annual Audit Plan. Continuously reviewed to ensure effective.	None

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
7.2	Audit Planning	Y			Risk based Annual Plan, subject to consultation with stakeholders and approved by the Audit Committee. Annual Audit Plan ensures that limited audit resources are re-assigned to strategic and operational risk areas. The Audit Committee is informed of any significant matters that may jeopardise delivery of the Annual Audit Plan.	None
<b>8.</b>	<b>Undertaking the Audit</b>					
8.1	Planning	Y			Terms of reference are discussed and agreed with management at the start of the audit review. .	None
8.2	Approach	Y			Risk based approach used to audit reviews. Some training has been provided to staff but more would be beneficial in particular using judgement, providing assurance and linking with risk management.	Further risk based audit training in particular assurance to be provided to Internal Audit staff.
8.3	Recording Audit Assignments		P		Defined standards for audit documentation contained in Galileo (fully integrated audit software). Documented retention policy exists but considered in need of review, relating principally to paper documentation and not electronic.	Review and update of Document Retention Policy to include more specific on electronic documentation, data held and decision points.

## Appendix 1

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
<b>9.</b>	<b>Due Professional Care</b>					
9.1	Responsibilities of the Individual Auditor	Y			This is contained in the Internal Audit Charter, officers code of conduct and other documents within the service. An Audit Manual exists but due to the move to Galileo this has become to a degree redundant.	Updating of Audit Manual.
9.2	Responsibilities of the Head of Internal Audit	Y			The Head of Audit & Business Risk has put in processes for due professional care. The review process is contained within Galileo and spot checks are carried out to ensure consistency.	None
<b>10</b>	<b>Reporting</b>					
10.1	Principles of Reporting	Y			Internal audit reporting protocols well established and clear. Effectiveness of internal audit reporting continuously reviewed, improved and staff fully engaged in the process. An opinion on the control environment and management of risks is provided in all audit reports, based on the judgement of the internal auditor (and reviewed). Guidance is available but in need of review together with further training to ensure consistency. No clear process exists for updating risk registers after audit reviews.	Updating of guidance for audit opinions for individual audit reviews and further training to be provided to Internal Audit staff.  Review process for updating risk registers following major findings and utilising new risk management software (currently be implemented)
10.2	Reporting of Audit Work	Y			Standards audit reporting template used, process includes all best practice including agreement, quality assurance, action plan, prioritisation or recommendations.	None

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
10.3	Follow-up Audits and Reporting	Y			Process well established and follow-up action usually within 3-6 months.	
10.4	Annual Reporting and Presentation of Audit Opinion	Y			The Head of Audit & Business Risk provides an annual opinion on the adequacy of internal controls and management of risk, contained in the Annual Internal Audit Report, reported to TMT and the Audit Committee. This is the key part of the annual review of governance arrangements.	None
<b>11.</b>	<b>Performance, Quality and Effectiveness</b>					
11.1	Principles of Performance, Quality and Effectiveness	Y			<p>The Audit Manual is broadly in accordance with the CIPFA Local Government Internal Audit Manual but requires updating.</p> <p>Arrangements are in place for continuous review and comparison of Internal Audit performance. This includes use performance data for comparison through the CIPFA Benchmarking Exercises for Internal Audit, undertaken annually. The results of the last exercise generally showed Internal Audit to be performing well, being high on productivity whilst relatively low on cost.</p>	Updating of Audit Manual
11.2	Quality Assurance of Audit Work	Y			There are processes in place to ensure adequate supervision of staff and monitoring of quality. This is reviewed by the Audit Commission and Peer Review.	Updating of Audit Manual for quality assurance.

## Appendix 1

Ref.	Adherence to the Code	Compliance at March 2009				
		Y	P	N	Compliance	Actions
11.3	Performance and Effectiveness of the Internal Audit Service	Y			Permanence management arrangements are in place, including at service and individual level. Although audit work is discussed with management and with no general adverse comments, opportunities exist to add greater value and contribute to the business transformation agenda.	Review skills required to add greater value from audit work in particular contributing to Business Transformation Agenda.

**Report to the Director of Finance & Resources of Brighton and Hove  
City Council**

**Review of the System of Internal Audit  
Compliance with the CIPFA Code of Practice on  
Internal Audit in 2008/09**

Introduction and Methodology

The Accounts and Audit (Amendment) Regulations 2006 require the Council to undertake an annual review of the effectiveness of its System of Internal Audit. This is a new requirement and all councils have been challenged as to how this should be met.

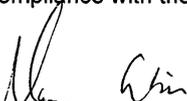
The methodology chosen was to complete a self-assessment based on the CIPFA "Compliance with the Code" checklist and subject this to a peer review by the Assistant Director Audit and Technical Services, London Borough of Bromley and further assessed by the Head of Audit, London Borough of Bexley.

The completed self-assessment indicated whether each section of the code was complied with and whether any aspect was only partially complied with or not complied with completely.

At my request, we were supplied with a number of sources of evidence to support the judgements made and an assessment of explanations offered where evidence was held on the system. We were given answers to the questions raised and have suggested some minor recommendations for improvement.

Opinion on the Self-Assessment and Action Plan

Based on the documentation and explanations provided to me, we can provide reasonable assurance that the self-assessment is fairly stated and the Action Plan is in place to address the areas of partial or non-compliance. It is further concluded that the Section has achieved substantial compliance with the code.

Signed:  Dated: 23<sup>rd</sup> March 2009 .....

Title: Assistant Director Audit and Technical Services – London Borough of Bromley

We recommend that the self-assessment be provided to the Director of Finance and Resources for further challenge and review, where they consider it necessary.

It should be noted that the review of the System of Internal Audit should be primarily about effectiveness, not process. Whilst the documentary evidence demonstrates how Internal Audit adds value to the Council and helps it achieve its objectives, the Section 151 Officer should consider whether he/she concurs with this opinion.

They may wish to take into consideration any comments from the External Auditor, corporate surveys, customer feedback, any complaints received, and the views of the Audit Committee in order to reach such an opinion. They should also consider whether the arrangements to discharge the functions of the Audit Committee are working effectively as part of the review of the system.

The results of the review should be included in the assessment of governance arrangements to produce the Annual Governance Statement, with an opinion as to whether or not the internal audit system is effective.

