





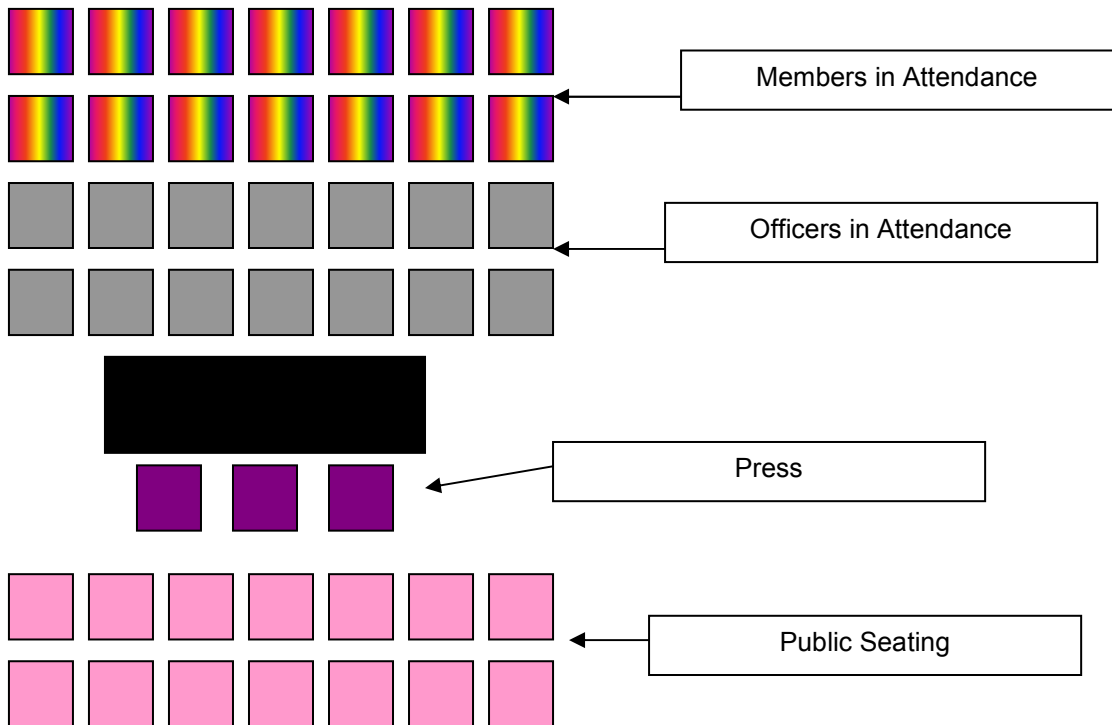
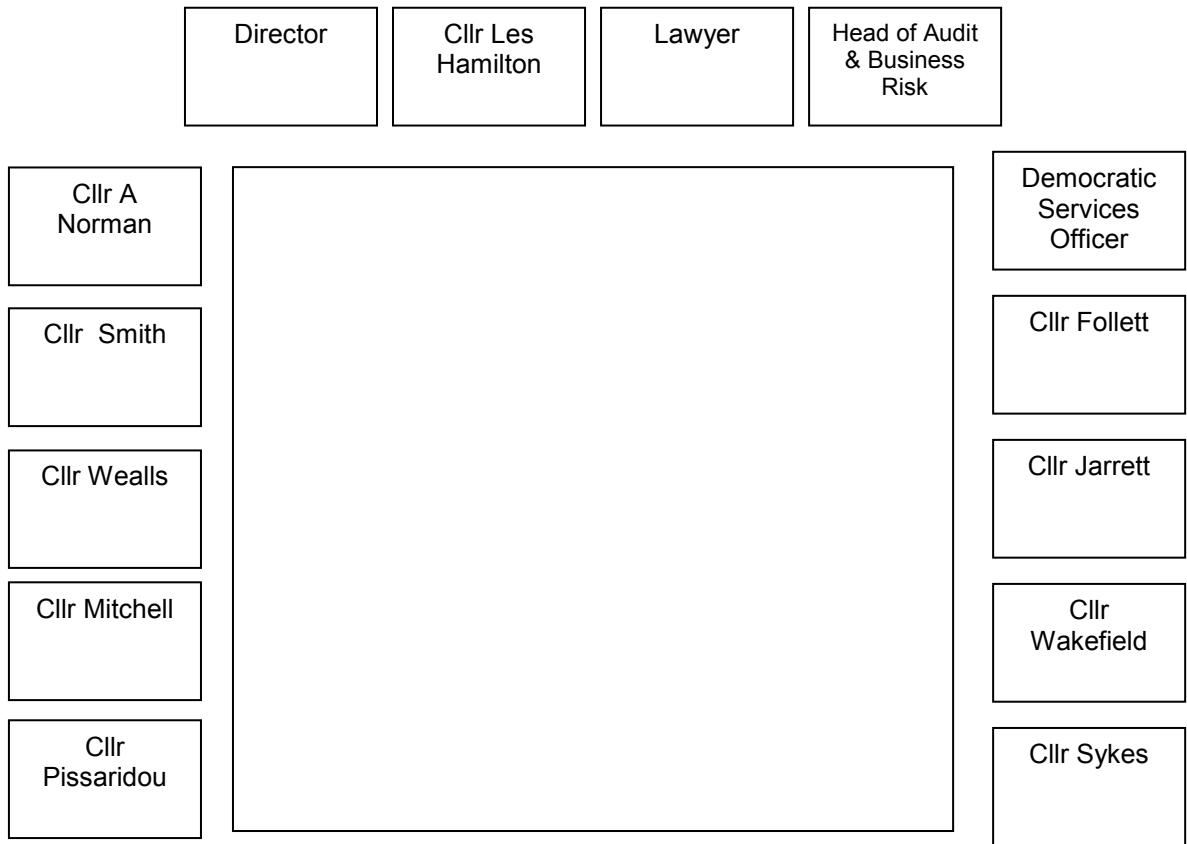
Brighton & Hove
City Council

Audit Committee

Title:	Audit Committee
Date:	24 April 2012
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, A Norman, Pissaridou, Smith, Sykes, Wakefield and Wealls
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

74. PROCEDURAL BUSINESS

- (a) Declaration of Substitutes - Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.
- (b) Declarations of Interest by all Members present of any personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- (c) Exclusion of Press and Public - To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

NOTE: Any item appearing in Part 2 of the Agenda states in its heading the category under which the information disclosed in the report is exempt from disclosure and therefore not available to the public.

A list and description of the exempt categories is available for public inspection at Brighton and Hove Town Halls.

75. MINUTES OF THE PREVIOUS MEETING

1 - 6

Minutes of the previous meeting held on 21 February 2012 (copy attached)

76. CHAIR'S COMMUNICATIONS

77. PETITIONS

No petitions received by date of publication.

78. PUBLIC QUESTIONS

(The closing date for receipt of public questions is 12 noon on 18 April)

No public questions received as of date of publication.

79. DEPUTATIONS

(The closing date for receipt of depositions is 12 noon on 18 April)

No depositions have been received as of date of publication.

AUDIT COMMITTEE

80. LETTERS FROM COUNCILLORS

No letters have been received as of date of publication.

81. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received as of publication.

82. AUDIT COMMISSION: PROGRESS REPORT 2011/12 7 - 20

Report of the Audit Commission (copy attached)

83. AUDIT COMMISSION: OPINION AUDIT PLAN 2011/12 21 - 46

Report of the Audit Commission (copy attached)

84. ASSURANCES FROM THE AUDIT COMMITTEE AS THE BODY CHARGED WITH GOVERNANCE 2011/12 47 - 56

Report of the Director of Finance (copy attached)

Contact Officer: *Ian Withers* Tel: 29-1323

85. INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2012/13 57 - 102

Report of the Director of Finance (copy attached).

Contact Officer: *Ian Withers* Tel: 29-1323

86. BRIGHTON & HOVE CITY COUNCIL COUNTER FRAUD STRATEGY 103 - 112

Report of the Director of Finance (copy attached).

Contact Officer: *Ian Withers* Tel: 29-1323

87. 2011/12 STATEMENTS OF ACCOUNTS PREPARATION 113 - 118

Report of the Director of Finance (copy attached).

Contact Officer: *Nigel Manvell* Tel: 29-3104

PART TWO

88. PART TWO MINUTES OF THE PREVIOUS MEETING (EXEMPT-CATEGORY 3) 119 - 122

Part Two minutes of the previous meeting held on 21 February 2012 (copy attached).

89. STRATEGIC RISK MANAGEMENT ACTION PLAN FOCUS - SR3 PACE AND VOLUME OF PUBLIC SECTOR CHANGE (EXEMPT CATEGORY 3)

(Verbal Update)

AUDIT COMMITTEE

Contact Officer: Jackie Algar

Tel: 29-1273

90. STRATEGIC RISK MANAGEMENT ACTION PLAN - SR9 CHANGES TO LOCAL GOVERNMENT FINANCE (EXEMPT CATEGORY 3)

(Verbal Update)

Contact Officer: Jackie Algar

Tel: 29-1273

91. PAYROLL- UPDATE FROM STRATEGIC DIRECTOR, RESOURCES (EXEMPT CATEGORY 3)

(Verbal Update)

92. PART TWO ITEMS

To consider whether or not any of the above items and the decisions thereon should remain exempt from disclosure to the press and public.

The City Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public. Provision is also made on the agendas for public questions to committees and details of how questions can be raised can be found on the website and/or on agendas for the meetings.

The closing date for receipt of public questions and deputations for the next meeting is 12 noon on the fifth working day before the meeting.

Agendas and minutes are published on the council's website www.brighton-hove.gov.uk. Agendas are available to view five working days prior to the meeting date.

Meeting papers can be provided, on request, in large print, in Braille, on audio tape or on disc, or translated into any other language as requested.

For further details and general enquiries about this meeting contact John Peel, (01273 291058, email john.peel@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk

Date of Publication - Monday, 16 April 2012

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 21 FEBRUARY 2012

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Follett (Deputy Chair), Jarrett, A Norman, Pissaridou, Sykes, Wakefield, K Norman and Wealls

PART ONE

56. PROCEDURAL BUSINESS

56a Declaration of Substitutes

56.1 Councillor Ken Norman declared that he was substituting for Councillor Smith.

56b Declarations of Interest

56.2 There were none.

56c Exclusion of the Press and Public

56.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the Committee considered whether the press and public should be excluded from the meeting during an item of business on the grounds that it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press or public were present during that item, there would be disclosure to them of confidential information (as defined in section 100A(3) of the Act) or exempt information (as defined in section 100I of the Act).

56.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of Item 71 onwards.

57. MINUTES OF THE PREVIOUS MEETING

57.1 **RESOLVED**- That the minutes of the previous meeting held on 20 December 2011 be approved and signed as the correct record.

58. CHAIR'S COMMUNICATIONS

58.1 The Chairman drew Members attention to an additional document relating to the consideration of Item 72 that had been circulated at the meeting.

59. PETITIONS

59.1 There were none.

60. PUBLIC QUESTIONS

60.1 There were none.

61. DEPUTATIONS

61.1 There were none.

62. LETTERS FROM COUNCILLORS

62.1 There were none.

63. WRITTEN QUESTIONS FROM COUNCILLORS

63.1 There were none.

64. TARGETED BUDGET MANAGEMENT (TBM) MONTH 9 - FOR INFORMATION

64.1 The Committee considered a report of the Director of Finance that set out the revenue and capital forecast outturn position for 2011/12 as at Month 9. The report was presented to the Committee for information.

64.2 The Director of Finance introduced the report noting in particular the £3.187 million underspend and the related issues of changeable budgetary activity and incorporating long-term trends into budget allocation.

64.3 Councillor Sykes enquired as to how trends were measured if budget demands were volatile.

64.4 The Director of Finance clarified that there were particular areas that required budget allocations regardless of demand such as` secure placements for children. Genuine trends were assessed over a long-term period and where it was clear that spending was decreasing or increasing consistently, it was reasonable to factor these in to the budget allocations.

64.5 **RESOLVED-** That the Committee notes the report.

65. REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

65.1 The Committee considered a report of the Director of Finance that presented the findings against "The Audit Committee Self-Assessment Checklist" identified from a cross-party workshop held in January 2012.

65.2 The Chairman relayed that Members had spent a lot of time devising actions to be undertaken. He thanked Councillor Jarrett for attending the workshop in January.

65.3 Councillor Ken Norman asked if the audit training would be similar to that provided to Members for Planning Committee and if there would be selected Members used as substitutes on the basis that they had similarly undertaken the mandatory training.

65.4 The Director of Finance replied that the audit training would be similar to that provided for Planning Committee. This training would not be compulsory for Members not on the Audit Committee but there would be an open invitation to attend. The Director of Finance added that the mandatory training would not be required of substitutes due to constraints upon availability of Members.

65.5 Councillor Ann Norman stated her support for mandatory training as it would be beneficial for all Members. Additionally, she believed that the same Members should sit on any future Standards/Audit Committee to prevent disruption.

65.6 RESOLVED-

- 1) That the Audit Committee notes the findings against "The Audit Committee Self-Assessment Checklist".
- 2) That the recommended actions set out in Appendix 1 be agreed.

66. AUDIT COMMISSION: PROGRESS REPORT 2011/12

66.1 The Committee considered a report of the Audit Commission that presented the progress made against the 2011/12 external audit.

66.2 **RESOLVED-** That the Committee notes the report.

67. AUDIT COMMISSION: CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2010/11

67.1 The Committee considered a report of the Audit Commission that presented the 2010/11 annual report on the certification of claims and returns.

67.2 The Chairman noted his concern regarding the weaknesses in arrangements identified particularly teachers' pensions return.

67.3 The Director of Finance concurred with this view stating that this was a part of the increasing concerns with payroll controls which would be addressed in depth under item 73. The Director of Finance added that the recommendations from the Audit Commission had been accepted and implemented.

67.4 **RESOLVED-** That the Committee notes the report.

68. INTERNAL AUDIT PROGRESS REPORT 2011/12

68.1 The Committee considered a report of the Director of Finance that summarised the progress made against the 2011/12 Audit Plan including the outcomes of specific audit reviews, agreed management actions and Internal Audit Key Performance Indicators.

68.2 The Chairman enquired as to when management actions were agreed and implemented subsequent to audit reviews given limited assurance.

68.3 The Head of Audit & Business Risk clarified that management actions were agreed by the end of audit reviews. If they were high priority agreed actions, implemented immediately or soon after the completion of the audit review.

68.4 The Director of Finance supplemented that audit work had been re-directed as part of the counter fraud programme instigated subsequent to losses at Hove Town Hall drop safe in particular on income and petty cash imprest accounts. Whilst these areas were not potentially high financial loss areas there were significant benefits to focusing attitudes in this area as was demonstrated in the audit reviews undertaken.

68.5 Councillor Follett praised the counter-fraud work undertaken and the benefits of awareness raising. He asked if Members should concern themselves with this area as a priority.

68.6 The Head of Audit & Business Risk replied that whilst fraud was increasing so too was awareness which was encouraging. One particular advantage was the closer working relations between Internal Audit and Sussex Police.

68.7 The Chairman asked if schools were subject to audit reviews.

68.8 The Director of Finance clarified that they did adding that under the conditions of the International Financial Reporting Standard (IFRS), Audit could use much more initiative in its work than under the Financial Management Standard which was very prescribed as to what could be audited.

68.9 **RESOLVED-** That Members note the progress made in delivering the Annual Internal Audit Plan 2011/12, outcomes achieved and current arrangements going forward to 31st March 2012.

69. RISK MANAGEMENT STRATEGY 2012

69.1 The Committee considered a report of the Director of Finance that set out the new Risk Management Strategy 2012 which would provide for the next three years and would replace the Risk & Opportunity Management Strategy 2008-2011.

69.2 **RESOLVED-**

- 1) That the Audit Committee note the approved Risk Management Strategy 2012.
- 2) That the Audit Committee note that Cabinet have delegated authority to the Director of Finance to alter the Risk Management methodology as necessary so that the Risk Management Strategy is kept up to date with changing requirements and best practice.

70. CURRENT FRAUD RISKS AND BRIGHTON & HOVE CITY COUNCIL COUNTER FRAUD PROGRAMME (VERBAL PRESENTATION)

- 70.1 The Committee considered a verbal presentation detailing current fraud risks and the Brighton and Hove City Council Fraud Programme.
- 70.2 Councillor Wealls enquired how information on incidents of fraud was shared between local authorities.
- 70.3 The Head of Internal Audit clarified that incidents were shared via the National Fraud Network (NAFN) alert system. Furthermore, the NAFN (South) was hosted by the Council.
- 70.4 The Chairman noted that many of the city's most vulnerable residents lived in social housing. He asked if intention or a lack of awareness was accounted for in investigating housing tenancy fraud.
- 70.5 The Principal Auditor replied that intention was essential in determining prosecution in cases of housing tenancy fraud and each case was assessed on this basis. If intention was not apparent, then criminal prosecution was not pursued.
- 70.6 Councillor Pissaridou asked if the local authority had used the Fraud Recovery Process.
- 70.7 The Director of Finance answered that this had been used in instances of large claims.
- 70.8 Councillor Follett enquired if systematic controls had been put in place to prevent fraud losses.
- 70.9 The Director of Finance clarified that measures had been put in place specifically with regard to housing tenancy fraud and false claims for single person council tax discounts to prevent losses.
- 70.10 **RESOLVED-** That the Committee notes the report.

71. PART TWO MINUTES OF THE PREVIOUS MEETING (EXEMPT- CATEGORY 3)

71.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on 20 December 2011 be approved and signed as the correct record.

72. STRATEGIC RISK MANAGEMENT ACTION PLAN FOCUS- STRATEGIC RISK 1 READINESS FOR OPPORTUNITIES & IMPACTS OF LOCALISM (SR1) (EXEMPT-CATEGORY 3)

72.1 As detailed in the Part 2 confidential report.

73. INTERNAL AUDIT REVIEW OF PAYROLL (EXEMPT CATEGORY 3)

73.1 As detailed in the Part 2 confidential report.

74. PART TWO ITEMS

74.1 **RESOLVED-** That the above items remain exempt from disclosure from the press and public.

The meeting concluded at 6.05pm

Signed

Chair

Dated this

day of

AUDIT COMMITTEE**Agenda Item 82**

Brighton & Hove City Council

Subject: 2011/12 Progress Report and Briefing
Date of Meeting: 24 April 2012
Report of: Audit Commission
Contact Officer: Name: **Helen Thompson** Tel: **0844 798 1790**
E-mail: Helen-thompson@audit-commission.gov.uk
Wards Affected: All

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 We would like the Committee to review the 2011/12 external audit progress report and briefing.

2. RECOMMENDATIONS:

- 2.1 To receive the 2011/12 external audit progress report and briefing and note the progress made.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 This regular progress report for the 2011/12 audit is intended to provide the Committee with a summary of progress made and any significant issues arising.
- 3.2 We welcome feedback from the Committee on any improvements it would like to either the format or content of the report.

Progress report and briefing

April 2012

Brighton and Hove City Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Audit progress

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering my responsibilities as the Council's external auditor.

2 If you require any more information about the issues included within this briefing, please feel free to contact me as your District Auditor or a member of the local audit team. Contact details are set out at the end of this update.

2011/12 audit

Financial statements

3 The proposed timing for my audit work is set out in table 1.

Table 1: **Audit time line**

Work flow	Date of completion	Reports/Progress
Documentation and walkthrough of key financial systems	January 2012	Complete. I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.
Audit Commission controls testing. Review of Internal Audit controls testing.	April 2012	I have liaised with Internal Audit to plan my detailed testing of controls in your key financial systems. Work has been undertaken by Internal Audit which I am able to rely on. A small amount of controls testing work remains ongoing. I will report weaknesses in internal control and any associated recommendations for improvement in my 2011/12 annual governance report.

Work flow	Date of completion	Reports/Progress
Post statement audit and financial statements opinion.	By 30 September 2012	<p>As in 2010/11, I intend to deliver my work in a shorter period of time using a larger audit team. It is my intention that the majority of my post-statement work will be delivered during July 2012. This approach in general worked well last year and has benefits both for officers and my team.</p> <p>The main delay in delivering my post-statement audit last year was caused by difficulties in testing detailed transactions produced by your payroll system. I reported in my last update that I planned to undertake this work early in the audit cycle and before you have produced your 2011/12 financial statements. This work is now almost complete. I will update you verbally on progress at the Committee.</p> <p>The results of my work on the 2011/12 financial statements will be reported in my annual governance report which I will present to the September 2012 Audit Committee meeting.</p>
Value for money (VFM) work.	By 30 September 2012	I will report the results of my detailed work to inform the 2011/12 VFM conclusion in my 2011/12 annual governance report. The statutory deadline for the 2010/11 VFM conclusion is 30 September 2012. My aim is to complete this work ahead of that deadline and present key findings and recommendations to management and the Audit Committee.

VFM conclusion

4 I assess whether the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

5 From 2010/11, the Commission introduced new requirements for VFM audit work at local authorities. Auditors give their statutory VFM conclusion based on the following two criteria specified by the Commission.

Table 2: **Specified criteria for the auditor's VFM conclusion**

Criteria 1	Criteria 2
The organisation has proper arrangements in place for securing financial resilience.	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
Focus of criteria for 2011/12	
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

6 Details of the work I intend to undertake to inform the 2011/12 VFM conclusion are set out in my 2010/11 audit plan which I am presenting to this April meeting of the Audit Committee.

Other matters

Outsourcing of the Audit Practice

7 The Audit Commission's Managing Director, Audit Policy wrote to you on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

8 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms. Note that the Council is in the South East contract area which will be audited by Ernst & Young.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst & Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West

Firm	Contract areas
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission will then write to all audited bodies on or shortly after 23 April 2012 to set out its proposals for ‘permanent’ auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.
- To support the consultation process, the Commission is arranging a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

9 The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

10 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

11 Further details can be found on the Commission’s website at <http://www.audit-commission.gov.uk/pressoffice/pressreleases/Pages/reduce-audit-fees-by-40-percent.aspx>

I will continue to keep you updated on developments.

12 Against this background, the Audit Practice’s focus remains:

- fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit – to the high standards you expect and deserve; and
- managing a smooth transition from the Audit Practice to your new audit provider.

Government response to consultation on the future of local public audit

13 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

14 The Audit Commission has recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see paragraphs 7 to 12 above). The government envisages the retention of the Audit Commission as a small residuary body, to oversee the contracts and to make any necessary changes to individual audit appointments.

15 Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

16 The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

17 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

18 Further information on the government response to consultation on the future of local public audit can be found on the Department for Communities and Local Government's website at

<http://communities.gov.uk/publications/localgovernment/localauditgovresponse>

19 The website also includes the most recent statement on the future of local public audit at

<http://www.communities.gov.uk/news/localgovernment/2060732>

Annual fraud and corruption survey 2011/12

20 On 2 April 2012 the Audit Commission will be issuing its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

21 The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

22 The Audit Commission is currently consulting on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

23 The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

24 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For you this is £3,650.

25 The consultation will close on 23 March 2012 and the final work programme and scales of fees will be published in May 2012. A copy of the consultation can be found at <http://www.audit-commission.gov.uk/fraud/nfi/public-sector/pages/fees.aspx>

Local government capital finance system

26 In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

27 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament. A copy of the consultation response can be found at <http://www.communities.gov.uk/publications/localgovernment/capitalfinance/summaryresponses>

A copy of the regulations can be found at

<http://www.legislation.gov.uk/ukxi/2012/265/introduction/made>

28 DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;

- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

A copy of DCLG's commentary can be found at

<http://www.communities.gov.uk/publications/localgovernment/capitalfinance/amend2012265>

29 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision (MRP). The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability. A copy of the updated guidance on MRP can be found at

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/capitalfinance/capfinguidconsultdocs/?view=Standard>

Openness and accountability in local pay

30 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act. A copy of the guidance can be found at

<http://www.communities.gov.uk/publications/localgovernment/guidancelocalpay>

31 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff and its lowest paid employees.

32 The statement must be:

- approved by full Council, or a meeting of members in the case of a Fire and Rescue Authority; and
- published on its website.

Accounting for HRA Self Financing

33 In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012. A copy of the guidance can be found at

http://www.cipfa.org.uk/pt/pt_details_1.cfm?news_id=61673

34 Note that I am treating the impact of the move to HRA self-financing as a specific risk to my audit of your 2011/12 financial statements. More details can be found in my 2011/12 audit plan which I am presenting to this April meeting of the Audit Committee.

Contacts

35 The key members of the audit team for the 2011/12 are set out below.

Table 3: **Audit team contacts**

Role	Name	Contact Details
District Auditor	Helen Thompson	Tel: 0844 798 1790 helen-thompson@audit-commission.gov.uk
Audit Manager	Simon Mathers	Tel: 0844 798 1776 s-mathers@audit-commission.gov.uk
Co-Team Leader	Jeremy Jacobs	Tel: 0844 798 6121 j-jacobs@audit-commission.gov.uk
Co-Team Leader	Jessica Grange	Tel: 0844 798 6116 j-grange@audit-commission.gov.uk

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



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April 2012

Subject: 2011/12 Audit Plan
Date of Meeting: 24 April 2012
Report of: Audit Commission
Contact Officer: Name: **Helen Thompson** Tel: **0844 798 1790**
E-mail: Helen-thompson@audit-commission.gov.uk
Wards Affected: All

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 We would like the committee to review the 2011/12 audit plan for the audit of the financial statements and value for money (VFM) conclusion.

2. RECOMMENDATIONS:

- 2.1 To note the 2011/12 audit plan for the audit of the financial statements and value for money (VFM) conclusion.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The audit plan sets out the work we propose to undertake for the audit of the 2011/12 financial statements and VFM conclusion.
- 3.2 Specifically the audit plan sets out:
- the audit risks that are being considered in delivering our work;
 - the testing strategy followed to address those risks;
 - details of work being undertaken to support the value for money conclusion;
 - key milestones and deadlines in the audit; and
 - details of the audit team and fee.

Audit plan

Brighton & Hove City Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of your accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Materiality can be defined as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement’.

Identifying audit risks

Auditing Standards require me to understand the Council and identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying your business risks, including assessing your own risk management arrangements;
- considering your financial performance;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within your information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: Significant risks

Risk	Audit response
<p>Payroll</p> <p>Although controls within your Midland i-Trent payroll system are capable of giving material assurance, my work, and the work of internal audit, has highlighted significant weaknesses in the operation of controls. As in previous years I am therefore unable to rely on controls to gain assurance for my opinion on the financial statements.</p> <p>The weaknesses in the operation of controls within payroll create a risk of misstatement and fraud. This is recognised by both management and the Audit Committee, as those charged with governance. Action is being taken to address the control issues noted.</p>	<p>As I am not able to rely on controls I will need to test payroll transactions to gain assurance for my audit opinion.</p> <p>Where I sought to test payroll transactions in 2010/11 difficulties in finding documentation and other evidence to support payments caused delays in my work. My team is therefore working with officers responsible for payroll to undertake as much of this work as possible before the financial statements are produced. I intend to report the results of this work, including any recommendations for improvement, as part of my 2011/12 annual governance report.</p>

Table 2: Specific risks

Risk	Audit response
<p>Local Delivery Vehicle – Seaside Community Homes Limited.</p> <p>You plan to transfer 499 council dwellings to Seaside Community Homes Limited (Seaside), a charitable company limited by guarantee. The transfer of properties began in November 2011 and therefore impacts on my 2011/12 responsibilities. The properties will be transferred under a 99-year lease of land and buildings with a break point exercisable by you after 40 years. Seaside will provide accommodation to tenants, manage the transferred properties, collect rents and undertake capital works on the properties. Seaside will pay cash sums to you as properties are transferred that you intend to recognise as capital receipts in your financial statements.</p> <p>There are two main issues arising from this arrangement that impact on my 2011/12 responsibilities in relation to the financial statements:</p> <ul style="list-style-type: none"> ■ There may be a group relationship between you and Seaside that would require you to produce group financial statements in 2011/12. ■ Accounting for the arrangement involves the exercise of judgement by management. In particular, the classification of the lease of land and buildings as a finance or operating lease has an impact on how you recognise receipts from Seaside for the transferred properties in your accounts. 	<p>Finance officers have liaised with my team over the course of the year and have shared proposals on how you intend to account for your relationship with Seaside in your 2011/12 financial statements. I have considered and challenged those proposals. This challenge has included detailed audit work on calculations, documentation and other evidence supporting your proposals.</p> <p>Based on my work undertaken so far on the evidence supporting your proposals I am not minded to challenge your view there is no group relationship between the Council and Seaside. I am therefore not minded to challenge your conclusion that group accounts are not required to be produced in 2011/12.</p> <p>I am continuing to consider your detailed proposals on how you intend to account for your activity with Seaside in your 2011/12 financial statements. I will also consider how your relationship with Seaside is disclosed in the financial statements. I intend to report the results of this work, including any recommendations for improvement, as part of my 2011/12 annual governance report.</p>

Risk

Falmer Academy

The new school for Brighton Aldridge Community Academy (BACA) was held on your 2010/11 balance sheet as an asset under construction.

The new school was completed and transferred to the possession of BACA in August 2011. It became operational as the main school premises in September 2011. The school land and buildings are subject to a long-term lease that will start on completion of the contract. The final legal execution of the lease will not now take place until the 2012/13 financial year. There is therefore some exercise of judgement required to determine how the asset and associated changes should be accounted for in your 2011/12 financial statements.

Audit response

Finance officers have liaised with my team over the course of the year and have shared proposals on how you intend to account for BACA in your 2011/12 financial statements. I will consider your proposals and report my findings in my 2011/12 annual governance report.

Waste management private finance initiative (PFI) – energy from waste facility

The energy from waste facility at Newhaven is now operational. Although accounting arrangements for the joint waste management PFI are now well established specific entries will be needed to bring the facility on to your 2011/12 balance sheet.

As in previous years a technical specialist has been engaged to review the accounting for the joint waste management PFI in your 2011/132 financial statements. The work will include specific consideration of the accounting entries to bring the energy from waste facility on to your balance sheet.

Risk

Housing Revenue Account (HRA) self-financing

Under self-financing you will be required to take a calculated share of the national HRA debt onto your balance sheet. In return you will no longer pay negative subsidy to the Department for Communities and Local Government. Although the new system of HRA self-financing will not start until 2012/13, borrowing of around £18 million will be secured and will come on to your balance sheet at the end of March 2012. There is a risk that this is not accounted for correctly in your financial statements.

Audit response

I will evaluate the management controls you have in place to take on and account for the debt from 28 March 2012.

I will also undertake testing to ensure that you have correctly accounted for and disclosed the impacts of changes required in preparation for the start of self-financing of the HRA in your 2011/12 financial statements.

Heritage assets

The 2011/12 code of practice on local authority accounting (the Code) adopts the requirements of FRS 30 Heritage Assets. As this is a new requirement, there is a risk that you may not be able to identify and account for all heritage assets within the time available.

A heritage asset is a tangible asset with historical, artistic, scientific, technological, geographical or environmental qualities that you hold and maintain principally for its contribution to knowledge and culture. This may include historical monuments, museum artefacts or works of art. You are now required to specifically identify and disclose such assets. You also may have to value and recognise assets meeting this definition on your 2011/12 balance sheet.

I will evaluate the management controls you have in place to identify and potentially value and recognise significant heritage assets. I will also undertake testing to check that you have accounted for and disclosed heritage assets in accordance with FRS 30 and the Code.

Testing strategy

My audit involves:

- review and re-performance of work completed by your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows, overleaf.

Table 3: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General ledger Council tax National non-domestic rates Housing and council tax benefit Housing rents	General ledger Council tax National non-domestic rates Housing and council tax benefit Housing rents			Payroll
Final visit			Pensions assets and liabilities – auditor to East Sussex Pension Fund (PKF)	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary Valuation of HRA properties – Wilkes, Head and Eve Valuation of other operational properties – In-house team plus external consultant Investment properties – Cluttons Agricultural property - SmithsGore	All material accounts balances, amounts and disclosures Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness.

My conclusion is based on two criteria, specified by the Commission. These relate to your arrangements for:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising resources within tighter budgets and improving productivity and efficiency.

Identification of specific risks

The main risk that is relevant to my value for money conclusion continues to arise from funding reductions in the comprehensive spending review and the resulting need to continue to secure significant efficiencies to achieve your medium term financial plans.

In light of this I intend to undertake the following work to inform my 2011/12 value for money conclusion:

- I will use the Audit Commissions VFM profile database, and other available information on cost, to consider your costs relative to your statistical nearest neighbours;
- I will consider your arrangements to compare costs and outcomes against others to form a view on the level of understanding you have on the value for money delivered. In particular I will consider your arrangements to ensure that commissioners have adequate information on costs and outcomes to make properly informed decisions; and
- I will consider how you use comparative information on costs and outcomes to inform budgeting and gain assurance that your pattern of spending matches your priorities.

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 26 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Audit plan	April 2012	Report to Audit Committee
Opinion: controls and early substantive testing	February to April 2012	Annual governance report
Opinion: receipt of accounts and supporting working papers	25 June 2012	n/a
Opinion: substantive testing	Payroll – Feb to April 2012 Other - July to August 2012	Annual governance report
Value for money	April to August 2012	Annual governance report
Present annual governance report at the Governance and Audit Committee	25 September 2012	Annual governance report
Issue opinion and value for money conclusion	26 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual audit letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	helen-thompson@audit-commission.gov.uk 0844 798 1790 / 07974 007332	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Simon Mathers Audit Manager	s-mathers@audit-commission.gov.uk 0844 798 1776 / 07776 493851	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance, Head of Internal Audit and Head of Central Financial Services.
Jessica Grange Co-Team Leader	j-grange@audit-commission.gov.uk 0844 798 6116	Responsible for the day-to-day running and detail of the audit. Key point of liaison with Central Financial Services Officers.
Jeremy Jacobs Co-Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 6121	Responsible for the day-to-day running and detail of the audit. Key point of liaison with Central Financial Services Officers.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £350,550 as set out in my letter to the Chief Executive letter of 11 March 2011.

The audit fee

The Audit Commission has set a scale audit fee of £350,550 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will inform you of any actions I identify.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£350,550	£389,500	- £38,950
Certification of claims and returns	£52,000 ⁱ	£52,845	- £845
Non-audit work	0	£4,000	- £4,000
Total	£402,550	£446,345	-£43,795

- ⁱ Grant certification work is billed per diem and therefore the final fee payable is variable. The 2011/12 fees for grant claim work are an estimate at this stage. I have updated this estimate based on the actual fee for 2010/11 grant claim work which is shown in the table above. I originally reported an estimate of £58,000 for 2011/12 grant claim work in my fee letter of 11 March 2011.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission’s Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting statements on which I can rely by agreed timescales.
- your officers provide:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

44 Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and the Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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0844 798 7070

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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.



Subject:	Assurances from the Audit Committee as the body charged with governance 2011/12		
Date of Meeting:	24th April 2012		
Report of:	Director of Finance		
Contact Officer:	Name:	Ian Withers	Tel: 29- 1323
	Email:	ian.withers@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 This report presents the proposed Audit Committee response to the Audit Commission's letter to those charged with governance issued at the 20th December 2011, Audit Committee Meeting.

2. RECOMMENDATION:

- 2.1 That the Audit Committee note the response to the Audit Commission's letter to those charged with governance which was sent on the 29th March 2012.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 At its meeting on the 20th December 2011 the Audit Committee was issued a letter from the Audit Commission with regard to the Audit of the Council's Financial Statements for the year ended 31 March 2012. The letter from the Audit Commission forms part of compliance with International Auditing Standards and it requires a response in writing.
- 3.2 Annually the Audit Commission write to those charged with governance asking a number of questions regarding governance and anti-fraud arrangements.
- 3.3 Councillor Hamilton responded to the Audit Commission last year on behalf of the Audit Committee and this response has been reviewed and updated to reflect current arrangements of the Council and additional questions asked.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The assurances from the Audit Committee support the audit of the 2011/12 financial statements.

*Finance Officer Consulted: Anne Silley
Head of Business Engagement*

Date: 2nd April 2012

Legal Implications:

- 5.2 This report is for information only. There are no legal implications arising from this report.

*Lawyer Consulted: Sarita Arthur-Crow
Lawyer*

Date: 11th April 2012

Equalities Implications:

- 5.3 No direct equalities implications.

Sustainability Implications:

- 5.4 No direct sustainability implications.

Crime & Disorder Implications:

- 5.5 Fraud is a crime and can result in significant financial loss to the Council.

Risk and Opportunity Management Implications:

- 5.6 An effective audit committee will ensure that the council has adequate arrangements for risk and opportunity management.

Public Health Implications:

- 5.7 No direct crime and disorder implications.

Corporate / Citywide Implications:

- 5.8 No direct corporate/city wide implications.

SUPPORTING DOCUMENTATION

Appendices:

1. Appendix 1 – Letter from those charged with governance



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Helen Thompson
District Auditor
Audit Commission
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Date: 29th March 2012
Our Ref:
Your Ref:
Phone: (01273) 291147
Fax: (01273) 291147
e-mail: leslie.hamilton@brighton-hove.gov.uk

Dear Helen

Re: 2011/12 Audit of Brighton & Hove City Council Financial Statements – Compliance with International Standards on Auditing

I am writing with reference to your letter to the Audit Committee at its meeting on 20th December 2011, under the agenda item “Request for assurances from the Audit Committee to support the audit of 2011/12 financial statements”. This sets out relevant assurances from those charged with governance required by the Council’s external auditors under the International Auditing Standards. These assurances are provided below, representing Brighton & Hove City Council’s formal response from those charged with governance, which for the purposes of the financial statements is the Audit Committee.

As in previous years, the Audit Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements. The process for the production of the Annual Governance Statement should also mean that all key risks that relate to the financial statements have been considered. Specific assurances are given below.

1. How the Audit Committee, as the body charged with governance, exercise oversight of management's processes in relation to:

1.1 Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud

This responsibility is exercised through the effective functioning of the Audit Committee, the constitution and operation of which follows CIPFA guidelines. The Director of Finance (S151 Officer) and Head of Audit & Business Risk or deputies, attend all meetings of the Audit Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management’s response. The Audit Committee also consider the

Annual Governance Statement including proposed actions and monitoring these in relation to improving governance and controls.

The Audit Committee also reviews the Internal Audit Strategy and Annual Plan and is able to comment on areas proposed for review. The council's Strategic Risks and associated Management Action Plans are regularly reviewed by the Audit Committee and the council's Risk Management Framework ensures that fraud risk would be escalated through to the Audit Committee if appropriate. Meetings between the Chair and the Head of Audit & Business Risk also take place regularly either planned or ad hoc as necessary. Roles and responsibilities of members and officers are clearly set out in the Codes of Conduct, Scheme of Delegation, Counter Fraud Strategy and Risk Management Strategy which also describe the relevant registers, declarations and escalation processes to be complied with. The Audit Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the council in relation to the 2011/12 financial statements.

1.2 Identifying and responding to risks of fraud in the organisation

The Audit Committee reviews and approves the Internal Audit Strategy and Annual Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme includes is both proactive and reactive, based on a risk assessment and considers risk identified at a national and local level as a basis for the deployment of resources.

The Audit Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also provided on the implementation of the control improvements.

The Audit Committee also oversees the preparation of the Annual Governance Statement for the Leader and Chief Executive to sign off and the implementation of the actions.

1.3 Communication to employees of views on business practice and ethical behaviour

The council has a Code of Conduct for employees, a copy of which is on the council's Intranet or a hard copy is made available if no access. Employees are made aware of the Code of Conduct as part of Induction Training. The Code of Conduct includes a number of modules, including Use of Your Position, Use of ICT Equipment and Political Neutrality. There is also regular training on governance and conduct along with fraud awareness.

The Audit Committee takes an active interest on how the Council's stance on fraud and corruption is communicated, this being shown by reviewing the Council's Counter Fraud Strategy and recommending approval the Executive.

1.4 Communication to those charged with governance on the processes for identifying and responding to fraud

The Audit Committee approves the Internal Audit Strategy and Annual Audit Plan, the latter includes an annual Counter Fraud Programme. These contain the processes for identifying and responding to fraud. In addition during late 2010/11 the Audit Committee received a report and presentation on a Fraud Risk Analysis and Measurement Review on areas of potential fraud exposure.

2. How the Audit Committee oversees management processes to the risk of fraud and possible breaches of internal control

The Council's Counter Fraud arrangements are overseen by the Audit Committee. The annual Counter Fraud Programme is included in the Internal Audit Strategy and Annual Plan which is reviewed and approved by the Audit Committee each year. The Annual Plan is reviewed continuously and the Audit Committee is informed and approves any significant changes due to for example escalating fraud risk or poor areas of internal control.

The Audit Committee receive an annual report and regular progress reports from the Head of Audit & Business Risk that reports significant breaches of internal control and fraud risks.

3. Whether you have knowledge of any actual, suspected or alleged frauds

The Audit Committee receives an annual report and regular progress reports from the Head of Audit & Business Risk which would include fraud of a material nature if this was to occur. Further details on identified losses and frauds risks can be obtained from the Head of Audit & Business Risk.

4. How you gain assurance that all relevant laws and regulations have been complied with

The Audit Committee declares that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2011/12 financial statements.

The Audit Committee relies on a number of methods to gain assurance including:

- From regular contact and reports received from the Head of Audit & Business Risk, in particular his annual and periodic progress reports against the Internal Audit Plan;
- From reports received from the Council's External Auditor;
- Through a robust Counter Fraud Strategy that reinforces to Staff and Members their responsibilities in adhering to all relevant laws and regulations; and
- Proper arrangements in place for the prevention, detecting and deterring fraud.

5. How you carried out a preliminary assessment of the going concern assumption and if so, have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

The Audit Committee have satisfied themselves in relation to the application of the going concern assumption. The Audit Committee received the audited set accounts for 2010/11 at its meeting on 27th September 2011 and a covering report from the Director of Finance which provided risks, accounting policies and concepts applicable to the applicable to the accounts. The Audit Committee approved the accounts, applicable accounting policies and disclosures taking into account the Council's financial standing, financial risks and advice from officers. The Audit Committee has also reviewed the various financial risks including the financial outlook and associated risk assessment of the Council's Medium

Term Financial Strategy and considers that the Council has appropriate risk management plans and actions in place to ensure its medium term financial health.

The Audit Committee receives for information, regular budget monitoring reports (TBM) throughout the 2011/12 financial year which shows the Council to be in strong, in year financial position.

The Audit Committee have not identified any events which may cast significant doubt on the Council's ability to continue as a going concern.

The Audit Committee is aware that the Director of Finance is required to report on the adequacy of reserves as part of the budget setting process and that no significant issues in relation to going concern were raised in that process.

Yours sincerely

Councillor Leslie Hamilton
Chairman of the Audit Committee

Appendix 1

No	Questions for those charged with governance	Those charged with governance response
1.	<p>Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?</p>	<p>The Audit Committee is informed by the Head of Audit & Business Risk in his annual report and regular progress reports. Further details on identified losses and frauds risks can be obtained from the Head of Audit & Business Risk.</p>
2.	<p>Do you suspect fraud may be occurring within the council?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks within the council? • Do you have any concerns that there are areas within your council that are at risk of fraud? • Are there particular locations within the authority where fraud is more likely to occur? 	<p>The Audit Committee receives regular progress reports from the Head of Audit & Business Risk that includes a summary of fraud investigations. For any significant cases, the Head of Audit & Business Risk would have a confidential meeting with the Chair and Deputy.</p> <p>The Audit Committee has not and would not normally identify any specific fraud risks within the Council but rely on being informed by the Head of Audit & Business Risk.</p> <p>The Audit Committees is informed by concerns raised by the Head of Audit & Business Risk either as part of the Annual Audit Plan (including Counter Fraud Programme) or Annual/Progress Reports.</p> <p>The Audit Committee would accept that fraud is likely to occur in those higher risk areas. For example areas where benefit payments are made and income collected.</p>

No	Questions for those charged with governance	Those charged with governance response
3.	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> • If not where are the risk areas? • What other controls are in place to help prevent, deter or detect fraud? 	<p>Generally yes on what is provided to the Audit Committee by the Head of Audit & Business Risk.</p> <p>Risks in payroll were brought to the attention of the Audit Committee during 2011/12 by the Head of Audit & Business Risk. The Audit Committee is overseeing effective actions to improve controls.</p>
4.	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>The Council has a Counter Fraud Strategy and Whistleblowing Policy that includes responsibilities and guidance on confidential reporting.</p> <p>The Audit Committee oversees the Council's counter fraud arrangements and it ensures policies etc encourage openness of staff to report concerns over fraud.</p> <p>The Audit Committee would expect concerns over fraud to be reported to the Audit & Business Risk Team. The Head of Audit & Business Risk summarises referrals in his periodic progress reports to the Audit Committee.</p>
5.	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your council?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>The Audit Committee would consider these to generally be where the opportunity for fraud exists. For example where handling income or making payments.</p> <p>Risks associated with the operational areas are included in the Audit Risk Assessment and included as appropriate in the Annual Counter Fraud Programme. The risks can be from a local or national level, informed for example from the National Fraud Authority or Audit Commission.</p>

No	Questions for those charged with governance	Those charged with governance response
6.	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>The Audit Committee are not aware of any related party relationships and transactions that could give rise to instances of fraud.</p> <p>The Council has a register of member's interests. Information is gathered of third party transactions and where appropriate accounted for and disclosed in the Statement of Accounts 2011/12.</p>
7.	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the council? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud? 	<p>The Audit Committee are not aware of any entries made in the accounting records of the council that believe or suspect are false or intentionally misleading.</p>
8.	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>The Audit Committee are not aware of any organisational, or management pressure to meet financial or operating targets.</p>

AUDIT COMMITTEE

Agenda Item 85

Brighton & Hove City Council

Subject: Internal Audit Strategy & Annual Audit Plan 2012/13
Date of Meeting: 24th April 2012
Report of: Director of Finance
Contact Officer: Name: **Ian Withers** Tel: **29-1323**
E-mail: ian.withers@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report presents the Council's Internal Audit Strategy and Annual Audit Plan for 2012/13. This includes both the operational internal audit and counter fraud work programmes together with updated Internal Audit Terms of Reference.
- 1.2 The Audit Committee and ultimately the Council, needs assurance that internal controls have been effectively designed and operates in practice to mitigate risks. The audit coverage contained in the Annual Audit Plan aims to provide assurance over this.

2. RECOMMENDATION:

- 2.1 That the Audit Committee approves the Internal Audit Strategy and Annual Audit Plan for 2012/13 as attached at Appendix 1 to this report.

3. BACKGROUND

- 3.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2011 which requires a local authority to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".
- 3.2 The Accounts and Audit Regulations contain the expectation that Internal Audit operates in accordance with proper practice, this being laid down in the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 3.3 Under the CIPFA Code of Practice, the Head of Audit & Business Risk is required to prepare and Internal Audit Strategy and Audit Plan for each financial year. The aim is to provide independent and objective assurance to management on business activities and associated control environment consisting of internal control, risk management and governance. In particular that it is appropriate and operating effectively.

- 3.4 The Internal Audit Strategy and Annual Plan 2012/13 is at Appendix 1 and provides the mechanism through which the Head of Audit & Business Risk can ensure the most appropriate use of internal audit resources to provide assurance on the Council's control environment and management of risks.
- 3.5 The Annual Audit Plan is effectively a work programme of primarily audit reviews. Inclusion of audit reviews is based on perceived risk, regulatory reviews or at the request of management.
- 3.6 The CIPFA Code of Practice also requires Internal Audit to have a Terms of Reference that has been formally reviewed and regularly reviewed. The Terms of Reference is included as an appendix to the Internal Audit Strategy and Annual Audit Plan.
- 3.7 There are considered to be sufficient resources available to achieve the Annual Audit Plan for 2012/13 subject to there being no greater levels of unplanned reactive work than envisaged.

4. ANNUAL AUDIT PLAN

- 4.1 In accordance with professional best practice the 2012/13 Annual Audit Plan, has been developed by:
- The use of our audit risk assessment which scores each audit entity against weighted risk scores including cumulative knowledge;
 - Ensuring coverage of core aspects of the council's governance and control environment in order to be able to support the Section 151 Officers and in providing an annual audit opinion for the council's Annual Governance Statement
 - Extensive consultations with members of Strategic Leadership Board, Corporate Management Team and other key officers in order to identify emerging risks and issues that are likely to have a significant impact on the control environment and opportunity to add value; and
 - Linking with Strategic and Operational Risk Registers and service business plans.
 - Including reviews based on criteria other than risk including audit reviews requested or commissioned by external audit or management.
- 4.2 In order to provide sufficient audit coverage, it has been agreed that the in-house team together with its partner Deloitte Public Sector Internal Audit Ltd will have sufficient resources to deliver 1,810 direct audit days (including 288 for counter fraud).
- 4.3 The Annual Audit Plan is a 'working document' and is both flexible and dynamic. As such it will be reviewed regularly throughout 2012/13 to ensure it adequately reflects emerging risks and issues. Any significant changes to the agreed plan will be reported to the Audit Committee, either as a separate report or as part of regular progress reports.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

Delivering the annual audit plan contributes towards the Chief Finance Officer meeting their Section 151 responsibilities (make arrangements for the proper administration of the Local Authorities financial affairs) by helping to achieve an effective control environment.

The financial implications of the Internal Audit Strategy and Annual Audit Plan have been fully costed and are within the allocated 2012/13 budget.

*Finance Officer Consulted: Anne Silley
Head of Business Engagement*

02 April 2012

5.2 Legal Implications:

As referred to in paragraph 3.1, regulation 6 of the Accounts & Audit Regulations 2011 requires the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

It is proper that this report and the recommendations in paragraph 2.1 be considered by the Audit Committee, in line with its terms of reference.

*Lawyer Consulted: Sarita Arthur-Crow
Lawyer*

12 April 2012

5.3 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.

5.4 Sustainability Implications:

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

5.5 Crime & Disorder Implications:

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

5.6 Risk and Opportunity Management Implications:

The preparation of the Internal Audit Strategy and annual Audit Plan has taken into account the 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.

5.7 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. Internal Audit Strategy and Annual Audit Plan 2012/13

Background Documents

1. Accounts & Audit Regulations 2011
2. CIPFA Code of Practice for Internal Audit in Local Government 2006



Audit & Business Risk

Internal Audit Strategy and Annual Audit Plan 2012-13

March 2012

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1. Forward

Internal Audit at Brighton & Hove City Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2012/13 is thus derived from an Audit Risk Assessment and focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed.

Our objective is to promote and champion sound governance throughout the Council and provide objective assurance to add value to management by ensuring key business controls are operating, risks managed and value for money is achieved.

We continue to innovate and adopt new approaches to ensure that the council receives an efficient and effective internal audit service that adds value. This includes for 2012/13 the introduction of continuous auditing and data mining to deliver efficiency savings and safeguard the council from fraud whilst enhancing customer satisfaction.

The council's internal audit function is provided by Audit & Business Risk, part of the Finance Unit, together with our 'Internal Audit Partner' Deloitte Public Sector Internal Audit Ltd. The updated Internal Audit Terms of Reference are attached at Appendix B.

2. Introduction

2.1 Purpose of this report

This document sets out the Internal Audit Strategy and Annual Audit Plan for Brighton & Hove City Council for the financial year 2012/13.

The purpose of the Internal Audit Strategy and Annual Audit Plan is to:

- Ensure effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Members, Strategic Leadership Board (SLB) and the Corporate Management Team (CMT);
- Optimise the use of audit resources available, given that they are limited;
- Identify the key risks facing the council to achieving its objectives and determine the corresponding level of audit resources;
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money;
- Support the Director of Finance in fulfilling obligations as the Council's nominated Section 151 Officer; and

- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011.

2.2 Providing Assurance

The Internal Audit Strategy and Plan is aimed primarily at providing ongoing and annual assurance to the Council, to provide confidence to its stakeholders. This is layered in order to achieve a more focussed and targeted assurance across a wide range of the council's systems and activities. The layers of assurance are spread across the thematic reviews and a mix of corporate, specialist, service and continuous audit reviews.

3. Key Core Deliverables for 2012/13

The Annual Audit Plan is expected to cover core deliverables as follows:

- To provide ongoing assurance to management on the integrity, effectiveness and operation of the council's internal control system;
- Delivery of the Annual Audit Plan in particular high risk audit reviews;
- To be responsive to transformational change and service demands;
- To continue to meet the requirements of the Council's external auditors and reliance placed on our audit work;
- To continue to develop our partnership working relationships;
- To further embed integration of internal audit work with governance and managing risk to produce a clearly co-ordinated risk-based approach to the audit of business/operational systems across the council;
- To ensure agreed management actions to audit recommendations made are fully implemented, in particular the high priority ones;
- To deliver the statutory requirements of the Accounts and Audit Regulations 2011;
- To continue to develop and have a lead in the council's corporate governance arrangements including review and production of the 'Annual Governance Statement' to provide assurance on the council's governance arrangements and any areas for improvement.;
- To provide an effective reactive Corporate Counter Fraud Service in accordance with the Council's Counter Fraud Strategy and the Local Government Fraud Strategy "Fighting Fraud Locally";

- Continue to be proactive in counter fraud including delivery of a comprehensive fraud awareness training programme to assist managers and staff in the prevention and detection of fraud and irregularities;
- To continue to develop our lead role and work closely with the Audit Committee; and
- To significantly contribute and support the councils Value for Money Programme. In particular by ensuring our audit work is focussed on effective change and delivery of service improvements.

4. The Role and Purpose of Internal Audit

The statutory basis for internal audit in local government is provided in the Accounts and Audit Regulations 2011 which states that *a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice*. The Council has recognised this statutory requirement in its financial regulations.

In addition to the above, the Director of Finance has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things the internal audit work for reviewing systems of internal control, financial management and other assurance processes.

The standards for 'proper practice' in relation to internal audit are laid down in CIPFA's Code of Practice for Internal Audit in Local Government (last updated in 2006). We continually ensure compliance with these professional standards and these are reflected in our Terms of Reference, shown at Appendix B.

The standard and quality of internal audit is principally scrutinised in three ways:

- An annual review of the effectiveness of internal audit required by the Accounts & Audit Regulations 2011;
- The Audit Commission (external auditors) seeks to place reliance upon the quality and standard of work our work through principally the 'managed audit' process and reports this to the Council in the annual audit and inspection letter; and
- Customer feedback and perceptions

5. Protocol for Audit Reviews

For each audit review carried out, the responsible Head of Service, Lead Commissioner or Director (Lead Client) and Service Manager will be consulted in the scoping to ensure appropriately focussed on current key perceived risks and issues. Terms of reference will be produced for each audit review and agreed to ensure the scope, objectives, approach, timetable are understood and agreed.

Draft internal audit reports will be issued for discussion with the appropriate levels of management and normally be set-out in the terms of reference.

Final internal audit reports will be issued after the agreement of draft reports and contain completed management actions plans that will identify those responsible for implementation and timescales. The final reports will always be issued to the 'Lead Client' responsible for the area reviewed.

Agreed actions or recommendations will be followed-up, depending on their priority but this will usually be between three to six months from the issue of the final. A report will be completed and distributed in line with the final report.

6. Approach to developing the Annual Audit Plan

The approach used is primarily developing a risk assessment to identify areas for including in the Annual Audit Plan. A summary of the approach is set out below.

<p>Step 1</p> <p>Understand the strategic and operational priorities together with risk</p>	<ul style="list-style-type: none"> • Understand Council structure and service areas including planned changes during 2012/13 • Quantifying risks associated with achieving corporate and service level objectives • Obtain information from for example strategic and operational risk registers • Identify corporate level objectives and risks • Utilise local and national knowledge • Consultation with SLB and CMT members and other key managers
<p>Step 2</p> <p>Define the audit universe</p>	<ul style="list-style-type: none"> • Identify all the auditable entities within the Council. Auditable entities can be functions, systems, establishments, locations or applications
<p>Step 3</p> <p>Assess the inherent risk</p>	<ul style="list-style-type: none"> • Assess the inherent risk of each auditable entity based on impact and likelihood criteria so the plan is focussed on the most risky areas
<p>Step 4</p> <p>Assess the strength of the control environment</p>	<ul style="list-style-type: none"> • Assess the strength of the control environment within each auditable entity. • Assessment based on: <ul style="list-style-type: none"> - knowledge of the control environment - Information obtained from other assurance providers - Materiality - Corporate importance and sensitivity - Outcomes and timing of previous audit coverage - Management concerns
<p>Step 5</p> <p>Calculate the audit requirement rating</p>	<ul style="list-style-type: none"> • Calculate the audit requirement rating taking into account the inherent risk assessment and the strengths of the control environment for each auditable entity
<p>Step 6</p>	<ul style="list-style-type: none"> • Determine the timing and overview for each audit

Determine the annual audit plan

- review
- Consider additional requests for audit reviews, for example regulatory driven audits, grants audits and consultancy reviews

The Annual Audit Plan will be indicative and it is inevitable that changes will be made during the year as the risk profile of the Council changes. This will be achieved through ongoing review and amendment, in consultation with the relevant lead clients and service managers to reflect the changing needs of the council and to add maximum value.

The Audit Committee will be kept informed of progress against the Annual Audit Plan and agree any significant changes during the year.

7. Internal Audit Resources and Skills Required

In order to achieve the Annual Audit Plan, the appropriate level of resources is made available to Audit & Business Risk and includes the required mix of skills, experience and specialisms required. This includes general audit skills in respect of systems and internal control reviews and appropriate coverage in specialist areas such as ICT, contract audit and counter fraud.

The Annual Audit Plan is resourced by calculating the number of productive days available within the Internal Audit Team supplemented by Deloitte Public Sector Internal Audit Ltd our "Internal Audit Partner". The Internal Audit Team's establishment for 2012/13 10.2 FTEs comprising the Head of Audit and Business Risk (proportion), Audit Manager, Principal Auditors and Auditors. The projected productive internal audit days available for 2012/13 is 1810 that includes the Counter Fraud Programme. This is a very small decrease from 1840 planned days for 2011/12.

A restructure of the Internal Audit Team was carried during 2011/12 which resulted in changes to the skills mix of the team whilst maintaining sufficient coverage with reduced financial resources. Recruitment to the new posts will take place in the first quarter and any loss of planned audit days from any delay in recruitment; will be met by budget flexibility to procure additional audit days externally under a framework contract from Deloitte Public Sector Internal Audit Ltd.

Our professional judgement has been applied in assessing the level of resource required to deliver the Annual Audit Plan. The level of resource applied is a product of:

- The complexity of the areas to be reviewed;
- Factors such as number of locations, number and frequency of transactions; and
- Assurance that can be brought forward from previous audits and other internal and external reviews carried out.

Staff development needs are continually assessed to ensure we maintain the level and mix of skills required to deliver a highly professional and added value internal audit service

8. Annual Audit Plan 2012/13

Appendix A shows the detailed Annual Audit Plan and provides a brief summary of each review under thematic areas. The plan also shows the significance of each review in terms of risk (high, medium and low) and where relevant, cross referenced to the council's corporate risks. The allocation of the 1,810 audit days is summarised in Table 1 below together with the number of specific audit reviews.

A small amount of contingency has been provided for unplanned or reactive work. This will be used to respond to emerging issues, risks and to requests from senior managers.

Table 1 – Summary of Annual Audit Plan 2012/13

Thematic Area	Number of Specific Audit Reviews	Audit Days	Pages
Corporate Governance Arrangements	10	125	13
Corporate Cross Cutting Audits	19	238	16
Fundamental and Key Financial Systems	12	205	20
Procurement & Contract Management	8	116	23
Information Technology	21	230	25
Service Specific	37	337	30
Counter Fraud Programme	4	288	34
Corporate Support	-	85	36
Grant Certification	-	30	37
Other Direct Audit Activity	-	156	37
Totals	111	1810	

The Annual Audit Plan includes the indicative quarter during the year when the audit review is planned to be undertaken. Wherever possible this has been agreed with management during the planning process. There is however flexibility to respond for example to pressures on services audited and audit resource availability.

In addition to the Audit Committee receiving regular progress reports against the plan, Corporate Management Team (CMT) Members will be provided with progress reports as necessary through the year summarising the outcome of reviews and other audit work for the quarter and planned for the quarter ahead. The Head of Audit & Business Risk and/or Audit Manager will also attend Unit Management Team meetings as required, to discuss audit coverage and outcomes.

9. Key Issues and Priority Areas for 2012/13

Having regard to the current risk profile of the council, the following areas have been identified as key issues and priority areas of our work for 2012/13:

9.1 Governance Arrangements

The council's governance framework covers all aspects of its business, including risk management, internal control and ethical standards. We have a key role to play in assessing the effectiveness of governance arrangements by comparison with principles contained in the CIPFA/SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). We also provide proactive advice on improving governance arrangements and disseminating best practice information.

A number of audits will support this assessment of governance arrangements and will take account of the Council's new operating model. These include the Performance & Risk Management Framework, Data Quality and Budget Management. The statutory Annual Governance Statement will be produced in June, approved by the Audit Committee and signed by the Leader and Chief Executive.

9.2 Key Financial Systems

The effectiveness of controls and management of risks within key financial systems remains a core part of our audit work. This work is important in providing annual assurance to the Council and to meet the requirements of the Audit Commission. We continue to develop our audit approach to give greater assurance and ensuring it meets the requirements of the International Auditing Standards (ISAs).

9.3 Business Transformation and Value for Money

With the significant financial challenges facing the public sector, the council continuous to deliver a major Value for Money programme for the transformation of services. Our Annual Audit Plan will be flexible enough to respond to emerging issues and risks from changes from this programme.

Value for money (VFM) will continue to be an integral part of our risk based audit approach, in particular being alert to opportunities for improved efficiency, effectiveness and economy. A key part of achieving good VFM and improved services is procurement and a number of audits will review this to provide assurance.

9.4 ICT and Information Governance

Information technology is fundamental to the delivery of the Council's services and an area of rapid change. Due to this high risk to the council, providing assurance on the adequacy of systems and controls is a key part of our Annual Audit Plan. Our work recognises the pace of change and adoption of new information technology and as such will be well informed to focus our resources on areas of highest risk and benefit.

9.5 Partnerships

The council is increasingly operating and delivering services jointly through partnerships. This also brings risks and opportunities to the council and the delivery of services. We will continue to review key partnerships and also work with auditors from partner organisations for effective coverage and providing assurance.

A key area of our work on partnerships in 2012/13 will be on the upcoming changes to the NHS and its impact on the Council. Specific examples include the emergence of GP Consortia and changes in responsibility for Public Health.

9.6 Schools

The audit of schools absorbs a significant audit resource, in addition to a significant commitment from the schools and it is important that our work is focussed on the areas of highest risk together with providing assurance to governing bodies. Our approach is therefore to undertake thematic reviews to optimise the deployment of resources and obtain an proportionate level of assurance.

As a result of changes to the risk environment, there will be occasions when it is beneficial to carry out reactive audit reviews at individual schools. We will liaise closely with management to identify these changes and programme audit reviews accordingly. Changes could include budget deficits, control failures, fraud or changes of key staff.

We will consider requests from schools to undertake audit reviews for assurance purposes where there has been no demonstrable change to the risk environment but the schools may be expected to meet the costs of the audits.

9.7 Counter Fraud

We are responsible within the Council for Corporate Counter Fraud and will continue to review and develop the robustness of the Council's arrangements. We will continue to work closely both internally and externally with bodies such as the Police, Audit Commission and National Fraud Authority.

A recent annual report by the National Fraud Authority gave a headline figure for indicative loss due to fraud in local government of £2.1 billion, an increase of £684M from 2010. In response to these headline figures, we have increased our counter fraud coverage, in particular proactive work to safeguard the council.

9.8 Implementation of Agreed Audit Recommendations

At the end of each audit review, an audit report will be produced containing agreed management actions to audit recommendations made. We will ensure these agreed

actions to audit recommendations are fully implemented to ensure improvements to the council's control environment and value for money. We will focus on high and medium priority audit recommendations.

10 Our Performance Management

To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, we have well established performance targets based on best professional practice and easily comparable with other organisations.

Performance indicators and targets are shown at Appendix C for six aspects of our service:

- Cost and quality of input;
- Productivity and process efficiency;
- Quality of output;
- Compliance with professional standards;
- Outcomes and degree of influence; and
- Our Staff.

We will ensure continuous improvement of the Internal Audit Service and adopt new approaches. It is regularly benchmarked with both other public and private sector providers to ensure efficient, effective and competitive.

Appendix A

INTERNAL AUDIT PLAN AND INDICATIVE TIMELINE 2012/13

Governance Arrangements

This part of the Annual Audit Plan covers key areas of the council's governance arrangements and part of the wider review to produce the Annual Governance Statement.

Ref.	Audit Review	Internal Audit Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A007	Annual Governance Statement 2011/12	High	15	Annual review of overall governance to assess the adequacy across the council. To produce Annual Governance Statement with action plan and to monitor progress made on specific actions to improve controls around specific governance areas.	Chief Executive & Chair of Audit Committee	Quarters 1 - 4
A053	Corporate Governance Framework	High	20	A revised national Corporate Governance Framework Standard for Local Government is expected from CIPFA/SOLACE during 2012/13. This audit will carry out a gap analysis of the Council's arrangements with the new standard and actions required.	Chief Executive	Quarter 3
A324	Neighbourhood Governance	Medium	15	Options around new forms of neighbourhood governance that seek to find an approach to the Localism Act are currently being considered. Central to this is the commitment to a more open and transparent to residents in terms of power to make decisions about services and influence budgets. This audit will examine the effectiveness of controls being designed in the process whilst achieving the objective.	Strategic Director Resources & Communities	Quarter 2
A181	Risk Management	Medium	6	Follow-up to 2011/12 audit review to assess the effectiveness of risk management arrangements throughout the council. This will include both the management of strategic and operational risks and the level of risk maturity of the council.	Director of Finance	Quarter 3

Ref.	Audit Review	Internal Audit Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A054	Corporate Health & Safety	Medium	8	This function is high profile and of corporate importance. The review will include overall management and compliance with health and safety requirements including the new safety management system.	Head of HR and Organisational Development	Quarter 4
A068	Declarations of Interest, Gifts & Hospitality	Medium	12	To review processes to ensure robust, clearly communicated and complied with. This will include effective approval and monitoring of registering declarations of interest, gifts and hospitality. The review will include both officers and members.	Head of Legal & Democratic Services	Quarter 4
A172	Project Management (Including Programme Management Office)	Medium	15	During 2011/12 new corporate expectation's regarding project management and arrangements regarding how projects are to be supported have been significantly revised with the introduction of the Programme Management Office (PMO). This audit will examine the methodology and control over projects used across the Council to provide assurance that operating effectively and compliance to corporate guidance. It will further review the effectiveness of the PMO role.	Head of Policy, Performance & Analysis	Quarter 3
A323	Performance & Risk Management Framework	Medium	15	During 2011/12 a new Performance & Risk Management framework was introduced. This audit will review the controls over the operation of the framework including how it supports commissioning and being joined up across the Council.	Head of Policy, Performance & Analysis	Quarter 1
A061	Data Quality	High	12	This review will examine the effectiveness of controls to manage and monitor the quality of data produced at various levels across the Council. The review will include data quality relating to Intelligent Commissioning for decision making.	Head of Policy, Analysis and Performance	Quarter 2
A026	Business Continuity Management	High	7	Review on the effectiveness of arrangements in place for how the council prepares for recovery from a major incident to ensure continuity of services.	Head of Planning & Public Protection	Quarter 4

Ref.	Audit Review	Internal Audit Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
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Corporate Cross Cutting Audit Reviews

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A325	Major Capital Projects	High	20	This audit will review the Council's management and governance arrangements for major capital projects.	Strategic Director Place	Quarter 1
A326	Public Health	High	12	Following the issue of the White Paper in relation to PCT services transferring to local authorities, this audit will assess the management arrangements to ensure a successful transition is achieved.	Director of Public Health	Quarter 2
A129	Insurance	Medium	10	This audit will review the current arrangements that the Council has in place for insurance. It will further consider the implications and impact for any changes in service provision will have on insurance.	Director of Finance	Quarter 1
A022	Budget Management	Medium	15	To review the effectiveness of controls for budget management, in particular financial reporting and budgetary control with a view to ensuring accurate and timely information is produced and reviewed by the appropriate level and that action to address any issues of concern is undertaken promptly and effectively. The audit will also include examining actions taken and reported on the realisation of budget savings for 2012/13.	Director of Finance	Quarter 3
A128	Income Collection Arrangements	High	15	The audit will review cash collection and banking arrangements, and assess the adequacy of the cash/bank reconciliations. The audit will also include carrying out spot checks of a sample of tills/floats/safes.	Director of Finance	Quarter 1

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A207	Management of Value Added Tax (VAT)	Medium	15	This review will examine the effectiveness of the Council's systems and control for the management of VAT. The review will include compliance with VAT guidance, VAT records and returns, Inputs (e.g. Expenditure/Repayments), Outputs (Income/Receipts), goods, services and reconciliations. The review will also evaluate that the adequacy of awareness of VAT issues and training to avoid any unnecessary financial loss.	Director of Finance	Quarter 1
A164	Petty Cash	Medium	12	This review will examine the management and control of petty cash at service and establishment level, in particular within Children and Families.	Director of Finance	Quarter 1
A170	Procurement Cards	High	15	A new system for procurement cards is due to go live in May 2012. Some initial work has been carried out in 2011/12 on the effectiveness of controls designed over the management and controlling the issue and use and this will be further expanded including testing of transaction data to ensure compliance with guidance and financial regulations by service users.	Director of Finance	Quarter 2
A267	Financial Regulations	Medium	8	The Council's Financial Regulations were reviewed and updated in 2011/12. This audit will examine their operation including awareness and compliance across the Council.	Director of Finance	Quarter 2
A324	External Funding	Medium	12	This audit will review the controls over external funding from a variety of sources e.g. European Union and Heritage Funding.	Director of Finance	Quarter 1
A193	Staff Expenses	Medium	12	To review the systems and processes for the claiming and disbursement. In particular within Children and Families	Head of HR & Organisational Development	Quarter 2

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A247	iTrent Staff Expenses System Module	Medium	10	To examine the operation of controls within the self service system.	Head of HR & Organisational Development	Quarter 2
A002	Employee Sickness Management	Medium	8	This audit will follow-up on the 2011/12 absence management audit on the operation policy, procedures and management actions. It was focus on the quality of sickness data input, reporting and that management are actively fulfilling their responsibilities in line with the policy/expected protocols. Consideration will be given to different ways or opportunities to improve sickness targets.	Head of HR and Organisational Development	Quarter 2
A163	Pensions Administration	Medium	12	The Council's Pension Scheme for employees participating is currently operated by East Sussex County Council for Officer and operationally outsourced to Serco Ltd. The exception being Teachers which is administered nationally by the Teachers Pension Service. This audit will review the effectiveness of controls operated by the Council for capturing, reconciling and transmitting pension data. It will include testing the accuracy of the data.	Head of HR & Organisational Development	Quarter 1
A098	Work Styles Project (Benefits Realisation)	Medium	15	The Council is currently at phase 2 of a significant work styles project mainly involving its property rationalisation to enable better use of space, more flexible working and associated savings. The audit will review the management of the project and assess the degree to which the projected benefits have been realised.	Head of Property & Design	Quarter 3
A172	Property Management	Medium	8	To review the effectiveness of controls over the council's management of its property including the corporate landlord function.	Head of Property & Design	Quarter 4
A202	Transport Fleet Management	Medium	12	This audit will follow-up on the 2011/12 audit and further review the robustness for new arrangements for procurement, utilisation, fleet control and general management of the Council's transport fleet.	Head of City Infrastructure	Quarter 2

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A199	Carbon Reduction	Medium	12	Carbon management is high on the agenda for all public sector organisations. This audit will consider the Council's approach and controls to meeting internal and external carbon reduction targets.	Head of Policy, Analysis and Performance	Quarter 1
A327	Management of Mainstream Grants	Medium	15	A key part of localism is the engagement of the third sector. This audit will examine the effectiveness of the management and control of mainstream grants awarded to third sector organisations	Head of Policy, Analysis and Performance	Quarter 2
			238			

Fundamental and Key Financial System Audit Reviews

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A146	Main Accounting System/General Ledger	High	12	Systems based audit to document, evaluate and test key system controls including controls to ensure all expenditure is correctly stated, suspense accounts are being managed effectively, controls around the appropriateness of transactions for example account codes and journals, operation of key interfaces and key account reconciliations between the feeder systems and general ledger.	Director of Finance	Quarter 4

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A056	Creditors (Accounts Payable)	High	30	Systems based approach considering key risk exposures and including process mapping of key controls. Controls testing to provide assurance that orders for goods and services are properly authorised and placed, correctly accounted for and comply with the Council's Financial Regulations and Procedures. The audit will test a selection of payments using audit software tools to ensure accurate and legitimate. Continuous auditing will be carried out throughout the year on transaction data using audit software tools to interrogate, manipulate and exception report for example duplicate payments, creditors, authorisation limits etc.	Director of Finance	Quarter 1-4
A067	Debtors (Accounts Receivable)	High	16	Systems based approach considering key risk exposures and including process mapping of key controls. The audit will provide assurance that income due is properly identified, collected and accounted for. The audit will further examine the adequacy of debt collection procedures to minimise the risk of bad debt write off.	Director of Finance	Quarter 3
A034	Cash Collection and Banking	High	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance.	Director of Finance	Quarter 4
A204	Treasury Management	High	10	Systems based approach considering key risk exposures, including process mapping of key controls and compliance testing to provide assurance. The audit will include assessing the adequacy of Council's Treasury Management Policy and cash flow forecasting to verify that funds are being invested correctly and appropriately to maximise returns for the Council with minimum risks to funds.	Director of Finance	Quarter 4
A029	Capital Accounting, Expenditure and Programming	High	12	Systems based approach considering key risk exposures and including process mapping of key controls. The review will include the accuracy of forecasting, performance reports identifying slippage and cost overruns accurately, project outcomes and lessons learnt for future projects.	Director of Finance	Quarter 4

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A011	Management of Fixed Assets	Medium	12	Review of the system operating for the handling, recording and accounting for fixed assets including the verification and valuation processes.	Director of Finance	Quarter 3
A153	Council Tax	Medium	20	Systems based audit to document, evaluate and test key system controls and risk exposures. To include liability, charging, billing, collection and recovery	Head of City Services	Quarter 3
A154	NNDR (Business Rates)	Medium	10	Systems based audit to document, evaluate and test key system controls and risk exposures. To include liability, charging, billing, collection and recovery.	Head of City Services	Quarter 3
A115	Housing & Council Tax Benefits	High	25	Systems based audit to document, evaluate and test key system controls and risk exposures. In particular verification of claimant data and assessment of entitlement to benefits, reconciliation and management reporting to reduce the risk of fraud, error and inefficiency. The audit will test new benefit claims, change of circumstances, back dated claims, debt recovery action for overpayments.	Head of City Services	Quarter 4
A117	Housing Rent Collection and Debt Management	High	18	Systems based audit to document, evaluate and test process, key controls and risk exposures.	Head of Housing & Social Inclusion	Quarter 4
A162	Payroll/HR	High	30	Systems based approach considering key risk exposures and controls. The review will examine HR records to ensure the completeness and accuracy of the establishment, HR records and contractual evidence. Continuous auditing will be carried out throughout the year on transaction data using audit software tools to interrogate, manipulate and produce exception reports.	Head of HR & Organisational Development	Quarter 1-4
			205			

Procurement and Contract Management Audit Reviews

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A306	Commissioning and contract management with the Third Sector	Medium	12	To review the effectiveness of controls to ensure value for money is achieved.	Director of Finance	Quarter 3
A328	Procurement - Selection of contractors and tendering	Medium	10	To review the effectiveness of the Councils tendering arrangements including the e-tendering system. The scope will focus on procurement in excess of £75k.	Director of Finance	Quarter 1
A328	Procurement - Contract Management	Medium	15	This review will provide assurance that the Council's contract management and monitoring arrangements are effective. A sample of contracts will be selected to evaluate and test compliance with corporate procurement procedures and contract management.	Director of Finance	Quarter 2
A329	Parking Enforcement Contract	High	15	This audit will review the adequacy of management and control over the re-letting of the on street car parking contract.	Head of City Infrastructure	Quarter 1
A108	Highways Maintenance	Medium	12	This audit will review the highways maintenance contract to ensure that key targets are being met, payments are made in accordance with the contract (e.g. schedule of rates) and for approved and completed works. The audit will include the use of benchmarking data (including cost) from the SE7 group of local authorities to ensure the Council is making the best of opportunities and value for money in service delivery.	Head of City Infrastructure	Quarter 1
A131	Integrated Waste Management Contract (IWMC)	High	20	The specific scope of coverage to be agreed as part of a joint audit plan with East Sussex County Council and the IWMC Project Board.	Head of City Infrastructure	Quarter 3
A118	Housing Repairs Contract	High	20	To review the adequacy of controls and management of risks for the housing repairs contract.	Head of Housing & Social Inclusion	Quarter 3

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A019	Brighton Centre Capital Development	High	12	This audit will examine the recent capital scheme for refurbishment of the Brighton Centre.	Head of Tourism	Quarter 1
			116			

Information Technology Audit Reviews

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A341	Civica ICON Cash Management System	High	10	This audit will review the effectiveness of the application controls over the Councils Cash Management application. This will include audit testing in the following areas:- Security, Application Management, Interface Controls, Data Input, Output Controls, Application Change Control, System Continuity and Recovery, Support Arrangements. The scope of the audit will include the recently implemented E>Returns module.	Director of Finance	Quarter 1
A330	Government Code of Connection (COCO)	High	15	This audit will undertake an assessment of the evidence that the Council has in place to support its Code of Connection submission and to identify where gaps exist in the evidence in place to support the control framework. The extent of testing of controls will influence the sampling of the controls and time required.	Head of ICT	Quarter 3

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A331	Management of Core Applications	Medium	10	This audit will be carried out in association with ICT to identify key Council systems and identify the controls that have been put in place over the governance of Council systems. This will look to identify if appropriate support arrangements have been established, licensing arrangements exist, system ownership has been defined and that appropriate accountability exists for system tasks and monitoring.	Head of ICT	Quarter 2
A332	Customer Relationship Management (CRM) System (Pre Implementation)	Medium	12	To undertake a system implementation audit of the Councils move to replace a number of its Customer Relationship Management Systems. This audit will look at the overall project controls in place in preparation for a subsequent audit following system goes live. Areas for audit testing may include the process for reviewing and assessing system requirements, business process review, project governance, testing and data conversion and change management.	Head of ICT & Head of City Services	Quarter 2
A333	Information Sharing (partners e.g. Health, Police)	High	10	This audit will review the Councils arrangements within Commissioning and Delivery Units to identify who the Council shares data with and assess the processes in place to transmit data to external organisations. To identify if overarching protocols in place especially where key Council services are being delivered by external organisations and data is routinely transferred to these organisations. This audit will identify if the required technical controls are applied for data transfer.	Head of ICT	Quarter 1
A334	Server Estate (Virtualisation, Capacity Management, Storage Management etc)	High	10	To undertake an infrastructure audit over the Councils virtual server environment and identify if appropriate controls are in place and in line with best practice, in addition, to identify if a development plan has been established for the storage of data. This audit will also cover how the Councils increasing capacity requirements are being managed within the virtual environment.	Head of ICT	Quarter 1

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A335	Change Management (CAB etc)	Medium	8	To review the Councils process for the management of change to ICT systems and to identify if processes exist for implementing change in IT applications. This audit will also select a sample of IT systems to test if corporate standards for change controls are being applied across the Council.	Head of ICT	Quarter 4
A074	Disaster Planning and Recovery	High	8	This audit will review the effectiveness of disaster recovery arrangements in particular for business critical systems. The audit will include back-up and off-site storage arrangements to help ensure security of the Council's data.	Head of ICT	Quarter 3
A309	Care First Application	Medium	12	This audit will review the effectiveness of the application controls operating. This will include documenting, evaluating and testing in the following areas:- Security, Application Management, Interface Controls, Data Input, Output Controls, Application Change Control, System Continuity and Recovery, Support Arrangements.	Head of ICT	Quarter 2
A335	Civica Business Rates Application	Medium	10	This audit will review the effectiveness of the application controls. This will include audit testing in the following areas:- Security, Application Management, Interface Controls, Data Input, Output Controls, Application Change Control, System Continuity and Recovery, Support Arrangements. The audit will also include consideration of the changes to business rates and the adequacy of the application to support this.	Head of City Services	Quarter 1
A336	SharePoint	Medium	10	SharePoint is used throughout the Council for information management as a repository for documentation and assisting with change management. This audit will review the data structures and information retention processes for the usage of the Council SharePoint system. In addition to identify if a strategy exists for the development of SharePoint and the security controls in place for access to data.	Head of ICT	Quarter 2

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A259	OHMS (Housing Repairs)	Medium	12	To audit will review the effectiveness of the application controls over the OHMS Housing Repairs module. This will include audit testing in the following areas:- Security, Application Management, Interface Controls, Data Input, Output Controls, Application Change Control, System Continuity and Recovery, Support Arrangements.	Head of ICT	Quarter 3
A337	Capita SIMS and Learning Gateway	High	10	The learning gateway is being implemented for SIMS during 2012/13 to provide parents with online real-time access to their child's data. This audit will review the security of data, access controls, system administration and business continuity arrangements.	Head of ICT and School's Business Managers	Quarter 1
A338	ICT Service Levels, Performance & Benchmarking	Medium	12	This audit will review the ICT service arrangements against key performance indicators and benchmarking information. We will also consider whether there are opportunities to improve arrangements to deliver better value /efficiencies for the Council, by reviewing IT resources, expenditure on assets/resources and partnership agreements. The audit will include examining the use made of SE7 benchmarking data and whether applied in terms of opportunities for value for money and improved service delivery.	Head of ICT	Quarter 4
A339	Payment Card Industry, Data Security Standard (PCI DSS)	High	10	This review will assess the controls which the Council has in place to help ensure compliance with PCI DSS Version 2 and help to identify any gaps requiring remedial action. This audit will complete an evidence based review of the processes in place to identify the requirements of compliance with the standard and if the Council has completed an assessment of the required Standard Assessment Questionnaire (SAQ).	Director of Finance	Quarter 2

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A352	BACS Controls	High	10	This audit will review the effectiveness of BACS within the Council's key applications.	Director of Finance	Quarter 1
A340	Enterprise Content Management (ECM)		12	One of the key enabling projects currently in progress at the Council is the implementation of Enterprise Content Management (ECM), facilitating both more efficient and more cost effective working, with cost reductions associated with both reduced printing and storage requirements. This audit will review current project achievements, what benefits have been achieved to date and what lessons have been learnt and what opportunities/suggestions should be taken forward as the project progresses.	Head of ICT	Quarter 3
A263	ICT Hardware Life Cycle	Medium	12	To review processes and controls in the ICT hardware life cycle from procurement to disposal. This audit would test the arrangements the Council has in place for recording ICT assets and tracking assets and identifying the controls in place for the disposal of ICT assets with no risk of data loss.	Head of ICT	Quarter 1
A318	Mobile Computing Security	Medium	10	This audit will evaluate the adequacy of security in relation to mobile devices for remote and home working across the City Council including the evolving and increased requirements for home working.	Head of ICT	Quarter 3
A342	Public Sector Network (PCN)	High	15	This audit will review the implementation of the Public Sector Network for the Council with partner local authorities. It will include proactive and real time advice. Testing to ensure that the Council has put in place adequate governance arrangements in the implementation of the PSN and that a defined Business Case has been established for the development of the Councils usage of the network.	Head of ICT	Quarter 1 - 4

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A247	iTrent HR Application Review	High	12	This audit will review the effectiveness of the application controls over the iTrent HR/Payroll system. This will include audit testing in the following areas:- Security, Application Management, Interface Controls, Data Input, Output Controls, Application Change Control, System Continuity and Recovery, Support Arrangements. The audit review will also include control arrangements for hosting of the application and data by Midland Software Ltd	Head of Human Resources	Quarter 2
			230			

Service Specific Audit Reviews

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A347	Local Delivery Vehicle (LDV)	High	10	This audit will review the operation of the LDV, in particular monitoring against plan, the debt recovery analysis and performance information provided	Strategic Director Place	Quarter 1
A115	Council Tax Benefits/Support Change	High	30	This audit will provide assurance over the Council's response to the expectations of the Localism Act as they relate to Council Tax Benefits to ensure all requirements are considered. The audit will include the integrity of business models and associated risks and impacts on the Council.	Director of Finance	Quarter 1-4
A154	Business Rates	High	20	As part of the localism agenda the Council will be allowed to keep a proportion of business rates. This audit will examine how Council is responding to this and financial modelling for risk and impact	Director of Finance	Quarter 1-4
A318	Home Care Services	Medium	12	This audit will examine the controls over Home Care including quality. The audit will also include the effectiveness and efficiency of the electronic home care system, to ensure controls are sound.	Director of Adult Social Services/Lead Commissioner	Quarter 3

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A072	Personal Budgets & Direct Payments	High	10	This audit will review controls relating to those with personal budgets, the allocation of funds based on authorised need and monitoring the use of funds to ensure they are used for intended purpose.	Lead Commissioner People	Quarter 2
A181	Schools Thematic Review – Procurement	High	20	This audit will review arrangements for procurement in schools. It will include compliance with procurement regulations and guidance, data mining using audit software.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A343	Schools Thematic Review – Payroll	Medium	12	This audit will review the effectiveness of controls at establishment level as feeder processes to iTrent Payroll System.	Lead Commissioner Schools, Skills & Learning	Quarter 3
A344	Schools Thematic Review –ICT Security	Medium	12	This audit will review the effectiveness of ICT controls at schools including physical security, business continuity planning.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A350	Schools Thematic Review – Electronic Payments to Suppliers (BACS)	Medium	8	This audit will ensure effectiveness of controls are designed and implemented in the new system for electronic payments to suppliers.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A302	Schools - Probity Reviews (10) and , Control Risk Self Assessments.	Medium	40	Schools audits will be reactive and undertaken using a risk based approach to review mainly the arrangements for school governance, financial management, procurement, HR administration, IT security and asset management. Ten schools are planned to be audited. Controls Risk Assessments (CRSA) will be also be used where appropriate to increase efficiency and coverage.	Lead Commissioner Schools, Skills & Learning	Quarter 1 - 4
A345	Pupil Premium Funding	High	12	This review will examine the effectiveness of the management and control arrangements for Pupils Premium Funding in particular accounting by Schools.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A151	Music Service	Medium	8	This audit will examine the effectiveness of controls operating over income and expenditure.	Lead Commissioner Schools, Skills & Learning	Quarter 1

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A937	Children's Centres	Medium	10	The audit will examine a sample of Children's Centres to ensure effective controls systems operate, in particular financial management.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A141	Leaving Care	Medium	8	To review the management and control for Leaving Care, in particular management and budget information.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A346	Home Education	Medium	8	This audit will review the effectiveness of controls over Home Education in particular the assessment criteria and use of home tutors.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A187	Section 75 Agreements for Children's Services	Medium	8	To review arrangements under S75 agreement with Sussex Community Trust.	Lead Commissioner Schools, Skills & Learning	Quarter 1
A111	Procurement and Payments of Homelessness Accommodation	Medium	15	The audit will examine the effectiveness of the Council's arrangements and controls over the placing homeless families in temporary accommodation and for making payments.	Lead Commissioner	Quarter 3
A031	On-Street and Off Street Parking Income	High	15	To review the systems for collecting, controlling and monitoring of parking income from on-street pay and display machines and car parks. The review will include new management arrangements for car parks.	Head of City Infrastructure	Quarter 4
A019	Brighton Centre	Medium	10	To review adequacy of systems for income and expenditure, in particular for events.	Head of Tourism & Leisure	Quarter 4
A312	Housing Revenue Account	Medium	12	An initial audit was carried out during 2011/12 and this audit will follow-up to examine the implementation of self-financing and the effectiveness of controls to mitigate the risks and impact on the Council.	Head of Housing & Social Inclusion	Quarter 2

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A274	Bereavement Services	Medium	10	This audit will follow-up the 2011/12 review on the controls in operation over the service.	Head of City Services	Quarter 2
A176	Registrars Service	High	5	Follow-up to 2011-12 audit and review the effectiveness of control improvements.	Head of City Services	Quarter 1
A140	Leasehold Service Charges		10	This review will examine the effectiveness of controls over leasehold service charges, in particular capital works both consultation to ensure costs are recoverable and new payment methods.	Head of Housing & Social Inclusion	Quarter 1
A348	Enforcement of Housing Estates Parking	Medium	6	The review will examine systems and controls for enforcement of parking on Council estates including over contractors.	Head of Housing & Social Inclusion	Quarter 1
A349	Trading Standards	Medium	8	This review will examine the effectiveness of controls operating for the service. This will include controls for managing the Trading Standards stores.	Head of Planning & Public Protection	Quarter 1
A023	Building Control Income	Medium	5	This review will follow-up on the audit carried out in 2011/12, in particular that system controls introduced over the collection, banking, reconciliation and accounting of income are effective.	Head of Planning & Public Protection	Quarter 2
A070	Development Control Income	Medium	5	This review will follow-up on the audit carried out in 2011/12, in particular that system controls introduced over the collection, banking, reconciliation and accounting of income are effective.	Head of Planning & Public Protection	Quarter 2
A144	Licensing	Medium	8	This review will examine the effectiveness of control over income.	Head of Planning & Public Protection	Quarter 2
			337			

Counter Fraud Programme

The counter fraud programme includes reactive investigations into suspected fraud and corruption and proactive reviews.

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
F009	Investigations into Fraud & Corruption (Reactive)	High	120	Carrying out investigations as and when required into referrals received into suspected cases of fraud and irregularities. Referrals may be received: <ul style="list-style-type: none"> ▪ From management ▪ Received via the confidential anti fraud hotline and website ▪ Found from internal audit reviews carried out ▪ Received under the Whistleblowing Policy Referrals will be risk assessed and investigated accordingly.	Director of Finance	Quarters 1 - 4
F277	Fraud Resilience Modelling	High	4	This review will use the Fraud Resilience Model recently developed by PKF and NAFN to determine the level of Fraud Resilience by the Council and comparison with similar organisations.	Director of Finance	Quarter 1
F351	Local Government Fraud Strategy “Fighting Fraud Locally”	High	10	The Local Government Fraud Strategy “Fighting Fraud Locally” is expected in early in 2012/13 and will contain a number of actions for local authorities to implement. This review will undertake a gap analysis against the actions recommended by the Strategy and where appropriate take action for any not already operating.	Director of Finance	Quarter 1
F278	Counter Fraud Strategy, Fraud Response Plan, and other Protocols and Guidance.	High	20	Ongoing review of policies, protocols and guidance to ensure effective and current. Where considered necessary appropriate ones will be revised, approved and implemented.	Director of Finance	Quarters 1 - 4

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
F280	National Fraud Initiative (NFI)	High	40	To lead on the National Fraud Initiative exercise for the council. This will include co-ordinating, investigating significant data matches, where applicable instigating sanctions and financial recovery. To further consider improvement to controls to mitigate future fraud risk.	Director of Finance	Quarter 1-4
F281	Data Mining	Medium	20	This review will use data mining tools for example data matching and exception reporting to monitor effectiveness of system controls and identify potential fraud and error. The audit work will be proactive and focus on high risk data sets.	Director of Finance	Quarter 2
F282	Money Laundering Strategy and Arrangements	Medium	8	Review of money laundering arrangements (including Policy) and compliance with 2007 regulations. Further guidance is expected during 2012/13.	Director of Finance	Quarter 2
F216	Whistleblowing	Medium	8	To review the effectiveness of the council's whistleblowing arrangements following the improvement introduced in 2009.	Director of Finance	Quarter 2
F283	Fraud Awareness Training	-	20	To provide awareness training across the council using e-learning modules developed for staff and managers.	Director of Finance	Quarters 2-3
F283	Fraud Awareness Campaign	-	10	Undertake both internal and external publicity campaigns to promote the work of the teams, focusing on the fraud hotline and online fraud reporting systems	Director of Finance	Quarter 2
F284	Agency Liaison and intelligence exchange	-	8	Liaison and information exchange with Police and other Anti Fraud Agencies including Police, DWP, NHS and UK Borders Agency.	Director of Finance	Quarters 1 - 4
F275	Housing Tenancy Fraud	High	20	This proactive review will use intelligence to investigate and take action with Housing Management over illegal subletting by housing tenants.	Head of Service Housing & Social Inclusion	Quarters 1 - 4
			288			

Corporate Support

This area of work provides support to both key officers and members.

Ref.	Audit/Area	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A286	Audit Committee Support	-	20	Providing support including training, effectiveness advice and reporting to Audit Committee. (Review wording)	Audit Committee	Quarters 1 - 4
A287	Section 151 Officer Support	-	20	To provide the necessary assurance and evidence that will allow the Director of Finance and Property to discharge her statutory 151 responsibilities. The support will include that given to the Finance & Resources Management Team.	Director of Finance	Quarters 1 - 4
A288	Committee/Members Support General	-	5	Providing support to other members of executive, regulatory and overview and scrutiny functions.	Various	Quarters 1 - 4
A289	Advice & Information to Directorates	-	40	To provide ad hoc advice and information to directorates as required, including participation in programme boards and working groups.	Various	Quarters 1 - 4
			85			

Grant Certification

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A291	Contingency for the certification of external grants received.	-	30	Auditing other grants as required for certification purposes.	Director of Finance	Quarters 1 - 4
			30			

Other Direct Audit Activity

Ref.	Audit Review	Risk Assessment	Indicative Number of Audit Days	Audit Details		
				Overview	Lead Client	Timing
A293	External Liaison	-	8	External liaison with partners and other public sector organisations to share and compare information on best practice and areas of significant risk.	None	Quarters 1 - 4
A294	Audit Commission Liaison	-	10	Liaison and support to external audit including ISAs impact, CPA, Anti Fraud & Corruption.	None	Quarters 1 - 4
A126	Follow-Up of Agreed Actions		45	To carry out implementation reviews of agreed management actions to previous audit recommendations made for progress made and extent implemented. This will focus on high and medium priority recommendations.	Various	Quarters 1 - 4
-	Contingency for unplanned audit work	-	73	Contingency for reactive work not planned, in response to emerging risks and issues.	Various	Quarters 1 - 4
-	Residual audits brought forward from 2010/11	-	20	Contingency to cover the completion of reviews brought forward to agreement and issue of final audit reports.	Various	Quarter 1
			156			

Appendix B

Terms of Reference for Internal Audit

1. Purpose

- 1.1 In accordance with best practice set down by the Chartered Institute of Public Finance and Accountancy (CIPFA) this document provides a formal Terms of Reference for the provision of Internal Audit at Brighton & Hove City Council.
- 1.2 It is reviewed by the Head of Audit & Business Risk on an annual basis to ensure it meets proper practice and the business needs of the Council.

2. Statutory basis of Internal Audit

- 2.1 Within local government the requirements for an Internal Audit function is statutory. The Accounts and Audit Regulations 2011 requires that a local authority "must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices".
- 2.2 There is a statutory requirement for Audit & Business Risk to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government.
- 2.3 The statutory role is recognised and endorsed within the Council's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

3. Responsibilities and objectives of Internal Audit

- 3.1 Internal audit is an assurance function that primarily provides an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.2 The control environment comprises the systems of governance, risk management and internal control.
- 3.3 In meeting its responsibilities, the Internal Audit activities will be conducted in accordance with the council's objectives, established policies and procedures.
- 3.4 Internal Audit will co-ordinate effectively with the Audit Commission (as the council's appointed external auditors) for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.

- 3.5 Internal Audit will work those of the council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the council's interests.

4. Reporting lines & relationships of Internal Audit

- 4.1 Audit & Business Risk provide the council's internal audit function and are part of the Finance Unit. The Head of Audit & Business Risk reports functionally to the Chief Executive, Director of Finance (Section 151 Officer), other Strategic Directors and members of the Audit Committee. Administratively the Head of Audit & Business Risk also reports to the Director of Finance.
- 4.2 The Audit Committee is responsible for approving the Internal Audit Strategy and Annual Audit Plan. The Head of Audit & Business Risk reports regularly to the Audit Committee on progress against the Annual Audit Plan and key issues arising.

5. Organisational independence of Internal Audit

- 5.1 Internal Audit is sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational duties for Brighton & Hove City Council.
- 5.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has unrestricted access to officers, members, council records and to report in its own name.
- 5.3 The existence of an Internal Audit function within the Council does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.

6. Consultancy and advisory role

- 6.1 Due to its detailed knowledge of the Council, its systems, processes and operations Internal Audit is well placed to provide a consultancy or advisory role on an ad hoc basis or as part of the Annual Audit Plan. Reports from this type of work contain findings and recommendations particularly to add value to the council's services in achieving value for money in its use of resources. Any consultancy and advisory work carried out shall not jeopardise the Internal Audit independence.

7. Internal Audit Standards

- 7.1 There is a statutory requirement for Audit & Business Risk to work in accordance with the 'proper audit practices'. These are effectively the CIPFA Code of Practice for Internal Audit in Local Government that accompanies the Accounts & Audit Regulations 2011.

8. Scope of Internal Audit

- 8.1 The scope for Internal Audit is 'the control environment comprising risk management, control and governance'. This means that the scope of Audit & Business Risk includes all of the council's operations, resources, services and responsibilities in relation to associated partner organisations. The priorities for Audit & Business Risk will be determined by a process of risk assessment.

9 Skills and resources of Internal Audit

- 9.1 Internal Audit will ensure as far as possible that it appropriately staffed in terms of numbers, skills and experience. The Head of Audit & Business Risk is responsible for appointing of staff and will ensure these are made in order to achieve the appropriate mix of qualifications, experience and skills.
- 9.2 The Head of Audit & Business Risk is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Director of Finance (Section 151 Officer) and the Audit Committee.
- 9.3 Where necessary to provide an adequate, effective and professional service the Head of Audit & Business Risk will outsource internal audit work to supplement internal resources but will ensure quality is not compromised.
- 9.4 If Internal auditors are appointed from operational roles elsewhere within the council, they do not undertake an audit in that area directly within one year unless by prior agreement.
- 9.5 In line with the CIPFA Statement on the Role of the Head of Internal Audit (2010), the Head of Audit & Business Risk is a professional qualified CIPFA Accountant. In addition there is a high mix of professionally qualified staff throughout the Internal Audit Team to meet delivery requirements of the service.

10. Internal Audit's role in issues of fraud and corruption

- 10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit will, however be alert in all their work to risks and exposures that could allow fraud or corruption.
- 10.2 The Head of Audit & Business Risk has lead responsibility for corporate counter fraud activities including proactive initiatives, maintaining and developing an effective framework, and advising management.

11. Internal Audit reports

- 11.1 The majority of audit reviews include a formal audit report being produced and issued to management. The primary purpose of the audit report is:
- To provide an opinion on the effectiveness of the control framework operating for the mitigation of risks;
 - To make practical audit recommendations and agree management actions;
 - To prompt management action to implement audit recommendations for change leading to improvements in control and where applicable value for money and performance; and
 - To provide a formal record of points arising from an audit review and agreement with management.
- 11.2 Management are expected to implement all agreed recommendations within a reasonable timeframe. Each internal audit will be followed up normally within six months of issue, in order to ascertain whether agreed actions have been implemented effectively.
- 11.3 The Head of Audit & Business Risk reports regularly to the Audit Committee on progress made against the Annual Audit Plan and the summarised outcomes of individual audits.
- 11.4 The Head of Audit & Business Risk provides an Annual Internal Audit Report to the Audit Committee that includes an opinion on the adequacy and effectiveness of the control environment to support the Annual Governance Statement.

Appendix C**Service Performance Targets**

Aspect of Service	Performance Indicators	Target
Cost and Quality of Input	<ul style="list-style-type: none"> Service costs Productive/direct time as % of total time 	<ul style="list-style-type: none"> Within budget 71%
Productivity and Process Efficiency	<ul style="list-style-type: none"> Achievement of annual plan by 30th April 2013 (%) Issue of draft report after completion of fieldwork Client responses received to draft audit reports from issue Issue of final report after agreement with client of draft Time between start of audit (entry meeting) and exit meeting Audit reviews delivered within budgeted time 	<ul style="list-style-type: none"> 100% Within 10 Days Within 15 Days Within 10 Days Days not exceeding 3 X total planned time for audit review 100%
Quality of Output	<ul style="list-style-type: none"> Client satisfaction levels (including added value from audit recommendations), source customer satisfaction questionnaires External audit reliance on work of internal audit 	<ul style="list-style-type: none"> 90% of scores within good to very good Reliance placed
Compliance with Professional Standards	<ul style="list-style-type: none"> CIPFA Code of Practice for Internal Audit in Local Government (2006) 	<ul style="list-style-type: none"> 100% compliant
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of agreed recommendations 	<ul style="list-style-type: none"> 98% of High Priority Recommendations 85% of Medium Priority Recommendations
Our Staff	<ul style="list-style-type: none"> Professionally Qualified and Undertaking CPD 	<ul style="list-style-type: none"> 80% 5 Days

Aspect of Service	Performance Indicators	Target
	<ul style="list-style-type: none"><li data-bbox="491 208 1038 277">• Annual Training & Development Received (Minimum)	

Subject: Counter Fraud Strategy Update
Date of Meeting: 24th April 2012
Report of: Director of Finance
Contact Officer: Name: Ian Withers Tel: 29-1323
E-mail: ian.withers@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report presents the Council's updated draft Counter Fraud Strategy, which has been revised in response to recent national developments including the Local Government Fraud Strategy, "Fighting Fraud Locally" and the implications of the Bribery Act.
- 1.2 The updated Counter Fraud Strategy is included at Appendix 1 and was last updated in March 2009 being approved by the Governance Committee.
- 1.3 The Audit Committee has a responsibility for ensuring the Council has in place effective counter fraud arrangements.

2. RECOMMENDATION:

- 2.1 That the Audit Committee notes the Council's updated draft Counter Fraud Strategy at Appendix 1 and recommends its approval by the relevant committee under the new system of council governance.

3. BACKGROUND

- 3.1 There is an increased expectation by Government that local authorities will do more to assist the fight against fraud. The Government estimates that fraud costs public services £21 billion per annum. Through a Cabinet Office Counter Fraud Taskforce, chaired by Francis Maude MP, and a national cross sector strategy, entitled "Fighting Fraud Together", the Government has indicated how seriously it considers the threat of fraud in the public sector and is taking a number of actions.
- 3.2 The National Fraud Authority (NFA) estimates that fraud currently costs local government around £2.1 billion per annum.
- 3.3 The current UK economic climate and reduced local government spending has led to an increased risk of fraud.

3.4 Additionally, there has been a number of other high profile reports issued which support the work of the NFA and highlight the increasing importance of effective counter fraud arrangements. These include:

- Protecting the Public Purse 2011 (Audit Commission)
- Eliminating Fraud in the Public Sector (Counter Fraud Taskforce)

3.5 The Counter Fraud Strategy is supported by the Annual Counter Fraud Programme included in the Annual Internal Audit Plan for each year.

3.6 The Counter Fraud Strategy will be communicated to the public via the Council's Website and to employees and Members via the Wave (the Council's Intranet) and fraud awareness training.

4. THE COUNCIL'S COUNTER FRAUD APPROACH

4.1 In response to the above developments, the Council's Counter Fraud Strategy has been reviewed and assessed against "Fighting Fraud Locally" and other recommendations made in reports referred to above.

4.2 The Council's Counter Fraud Strategy was last updated in March 2009, having been approved by the Governance Committee. The main difference this revision is that it is based around the three key strands of the Fighting Fraud Locally Strategy which are: Acknowledge, Prevent and Pursue and includes actions to be undertaken by the Council. It also includes the Council's response to the Bribery Act 2010 as part of required "appropriate measures".

4.3 Fraud and corruption are increasing across all sectors and accordingly the updated Strategy will strengthen the Council's counter fraud arrangements and response.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

There are no direct financial implications arising from this report. A robust Counter Fraud Strategy is an essential part of the Council's counter fraud framework and clearly assists in minimising potential or actual financial losses attributable to fraud and corruption,.

*Finance Officer Consulted: Anne Silley
Head of Business Engagement*

2nd April 2012

5.2 Legal Implications:

The draft strategy is consistent with the law and best practice. There are no adverse Human Rights implications arising from the report.

There are no direct legal implications arising from this report but individual actions in the Strategy may require legal support and advice.

*Lawyer Consulted: Sarita Arthur-Crow
Lawyer*

11th April 2012

5.3 Equalities Implications:

There are no equalities implications arising directly from this report.

5.4 Sustainability Implications:

There are no substantiality implications arising directly from this report.

5.5 Crime & Disorder Implications:

Fraud is a crime and can lead to financial loss and reputational loss to the Council..

5.6 Risk and Opportunity Management Implications:

The Risk and Opportunity approach by the Council considers the risk of fraud and corruption.

5.7 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. Draft Counter Fraud Strategy 2012

Background Documents

1. Local Government Fraud Strategy, "Fighting Fraud Locally" 2012
2. Internal Audit Strategy and Annual Audit Plan 2012/13
3. Protecting the Public Purse (Audit Commission) 2011
4. The Bribery Act 2010



Item 86- Appendix 1

**Counter Fraud Strategy
(Draft)**

March 2012

1. Context and Purpose

- 1.1 Brighton & Hove City Council (the Council) is committed to protecting the public funds that it is responsible for. Like other large organisations, the size and nature of its services puts the Council at risk from loss due to fraud, bribery and corruption and it is determined to minimise risks from both inside and outside the organisation.
- 1.2 An effective Counter Fraud Strategy is key to the Council in directing and controlling its business with openness, integrity and accountability.
- 1.3 Far from being a victimless crime, fraud, bribery and corruption deprives vital services of the resources that they need.
- 1.4 The purpose of this Strategy is to set out clearly to Members, employees, contractors, its partners and the public:
- The Council's commitment to tackling fraud, bribery and corruption
 - Its actions to promote the prevention of fraud and corruption
 - The responsibilities of Members and employees in minimising the risk of fraud and reporting any suspicions they may have.

2. Underlying Principles

- 2.1 The Council does not tolerate fraud, bribery or corruption and is committed to reducing the opportunity to the lowest possible risk. It will ensure that:
- Everyone within the organisation or within partner organisations takes responsibility for the prevention and detection of fraud, bribery and corruption.
 - Key policies and procedures are up to date, effective, and complied with.
 - A full Fraud Risk Assessment is maintained and an Annual Counter Fraud Programme is compiled, agreed and executed.
 - All suspected cases of fraud and corruption are referred to the Head of Audit & Business Risk.
 - All suspected cases of fraud and corruption are risk assessed, investigated fairly and objectively within a clear ethical framework and where found to be present, appropriate action is taken including disciplinary, criminal, civil or regulatory proceedings and any losses recovered.
 - Cases of fraud and corruption are referred to other agencies as appropriate and work jointly including the use of fraud intelligence.
 - Any decision to refer a case (except housing benefits) to the Police will be made by the Head of Audit & Business Risk as appropriate.

- Officers, Members and partners receive proper guidance regarding anti fraud and corruption issues.
 - High standards of internal control are achieved, promoted and regularly reviewed.
 - There is a safe environment to report suspected cases of fraud and corruption.
 - Individuals and organisations, e.g. suppliers, contractors and service providers with whom it deals, will act toward the Council with integrity and without intent or action involving fraud and corruption.
- 2.2 An important part of the Council's approach is the Counter Fraud Strategy, which is aimed primarily at guiding members and employees on the Council's approach to the serious issues of fraud and corruption. It is also published on the Council's website so that residents, businesses and Council partners are fully aware of the commitment to the prevention and detection of fraud and corruption.

3. What is Fraud, Bribery and Corruption?

- 3.1 The Fraud Act 2006 created a new general offence of fraud which may be committed in three ways:
- Fraud by false representation (e.g. using a false identity to gain benefits, job or tenancy);
 - Fraud by failing to disclose information (e.g. failing to disclose income when making a claim for benefits);
 - Fraud by abusing a position of trust (e.g. misusing clients' funds).
- 3.2 The Act also created four related criminal offences of:
- Possession of articles for use in frauds;
 - Making or supplying articles for use in frauds;
 - Participating in fraudulent business;
 - Obtaining services dishonestly.
- 3.3 The Bribery Act 2010 defines bribery as "giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so." There are four key offences under the Act:
- Bribery of another person;
 - Accepting a bribe;
 - Bribing a foreign public official;
 - A corporate offence of failing to prevent bribery.
- 3.4 Genuine hospitality or similar business expenditure that is reasonable and proportionate is allowable under the Act. The Council's Members Code of Conduct and Employees Code of Conduct details the Council's approach.

- 3.5 Corruption is defined as “the offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the body, its members or officers.” It may encompass a variety of wrongful acts, such as bribes, ‘kickbacks’ and abuse of public office. Like fraud, corruption is a criminal offence.
- 3.6 Theft is defined by Section 1 of the Theft Act 1968 as “dishonestly appropriating property belonging to another with the intention of permanently depriving the other of it.” It therefore includes stealing any property belonging to the Council or which has been entrusted to it including equipment, cash, data and clients’ funds.

4. Responsibilities for Counter Fraud

- 4.1 The Accounts and Audit Regulations 2011 require the Council to have appropriate control measures in place to enable the prevention and detection of fraud and error.
- 4.2 Management have the responsibility to ensure that there are sound systems of internal control. Controls should be designed and implemented to reduce the risks posed by fraud and ensure, as far as possible, its detection should it occur.
- 4.3 Audit & Business Risk are responsible for corporate counter fraud including reactive investigations and proactive preventative and detection work.

5. The Council’s Approach to Counter Fraud

- 5.1 The Council is committed to an effective anti-fraud approach designed to reduce losses to fraud. This is based on 3 key strands as follows:

<p>Acknowledge</p> <p>That fraud happens and understanding fraud risks</p>	<ul style="list-style-type: none"> • The Council acknowledges and understands fraud risks and takes appropriate actions to mitigate • Continually reviewing and updating fraud risk assessment • Maintain a robust anti-fraud response • Committee support • An Annual Counter Fraud Programme • Fraud awareness training
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<p>Prevent</p> <p>Committed to preventing fraud happening</p>	<ul style="list-style-type: none"> • Maintaining and continually improving an effective counter fraud culture including communication of zero tolerance • Use of information and technology to prevent and detect fraud • Building in stronger fraud prevention measures • Inter-related policies and procedures in line with legislative requirements and best practice • Ensuring effective system processes and fraud controls • Providing an effective Internal Audit service • Using and sharing intelligence to detect fraud • An effective training programme for staff and Members in fraud awareness and understanding of their duties with regard to preventing and reporting fraud, bribery and corruption
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<p>Pursue</p> <p>Committed to punish fraudsters and recovery of losses</p>	<ul style="list-style-type: none"> • A consistent and supportive law enforcement response • Maintaining capability to investigate and sanction fraud • Taking immediate action when fraud is detected including disciplinary, civil and criminal action • Collaborating with other organisations such as the Police, Government Departments (e.g. Home Office, DWP) NAFN and other local authorities • Effective use of fraud recovery processes and recovering as far as possible, any loss suffered as a result of fraud, bribery or corruption
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6. Reporting Fraud

- 6.1 Although prevention is the most efficient and effective way to address fraud, bribery and corruption, it is however acknowledged that, despite our best attempts, determined fraudsters may succeed.
- 6.2 If fraud, bribery or corruption is suspected, it should be reported without delay to the Head of Audit & Business Risk or the Council's confidential corporate fraud line 01273 291700 or email fraud@brighton-hove.gov.uk.

7. Investigation of Fraud

- 7.1 The investigation of fraud, bribery and corruption is often a complex and specialised area and will usually be undertaken by staff in Audit & Business Risk or, for less complicated cases, managers, under advice from Audit & Business Risk. This is necessary to ensure that the correct procedures are undertaken; evidence is collected in a way that complies with relevant legislation and does not compromise actions to be taken if fraud is established.
- 7.2 To facilitate audit work and investigations, Internal Audit Staff are accorded access rights by the Council's Financial Regulations to all necessary documents, records and information.
- 7.3 Any decision to refer an investigation to the Police will be taken by the Head of Audit & Business Risk or authorised deputies, in consultation with others, as appropriate.

8. Conclusion

- 8.1 This strategy is aimed at reducing the Council's actual and potential losses due to fraud, bribery and corruption to maximise resources are protected for the delivery of its services.
- 8.2 The strategy fully supports the Council's desire to maintain a culture of openness, fairness, trust and dignity.
- 8.3 The Council has in place a clear framework of systems and procedures to deter and investigate fraud and corruption. It will ensure that these arrangements are fair, monitored and updated to keep pace with future developments in preventative, deterrent and detection techniques.

Subject:	2011/12 Statements of Accounts Preparation		
Date of Meeting:	24th April 2012		
Report of:	Director of Finance		
Contact Officer:	Name:	Nigel Manvell	Tel: 29-3104
	E-mail:	nigel.manvell@brighton-hove.gov.uk	
Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

- 1.1 This report provides the Audit Committee with information on the changes for the 2011/12 Statement of Accounts and should be read in conjunction with the Audit Commission's Audit Plan for the audit of the 2011/12 financial statements.

2 RECOMMENDATION:

- 2.1 The Audit Committee is recommended to note the changes for the 2011/12 Statement of Accounts.

3 REASON FOR RECOMMENDATION

- 3.1 To ensure the Audit Committee has up to date information on the changes that the council is required to make to its accounting practices to comply with the statutory frameworks for producing its accounts for the 2011/12 financial year.

4 BACKGROUND INFORMATION

- 4.1 Under the Accounts and Audit Regulations, the council's accounts must comply with proper practice. Local Government financial statements are prepared using accounting principles based on International Financial Reporting Standards (IFRS). Compliance with IFRS is achieved through the application of the "Code of Practice on Local Authority Accounting" (the Code). The Code is published annually by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.2 In England and Wales, the Code is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003. All English authorities to which section 21 applies and that are required to prepare a Statement of Accounts by the Accounts and Audit Regulations under section 27 of the Audit

Commission Act 1998, therefore have a statutory duty to comply with the Code's requirements.

- 4.3 The 2011/12 Code, which relates to the financial year commencing on 1 April 2011, introduces some changes in accounting practice which the council needs to comply with. These changes are detailed in Section 5 below.

5 2011/12 STATEMENTS OF ACCOUNTS

- 5.1 The 2011/12 Code has introduced a small number of changes that will need to be implemented for the 2011/12 accounts. The key issues which will affect the council's financial statements are detailed below.

5.2 Heritage Assets (FRS 30)

- 5.2.1 The 2011/12 Code requires, for the first time, the recognition of heritage assets. Heritage assets are those assets held by the council that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They include historical buildings such as the Royal Pavilion, historic motor vehicles such as the Volks Railway and museum and gallery collections and works of art.
- 5.2.2 A review of our current assets held has taken place to re-categorise assets that meet the definition for a heritage asset. Discussions have also taken place with various service managers to ensure all assets that could be captured under the definition have been identified and are included on the council's balance sheet.
- 5.2.3 Identified heritage assets will be held on the council's balance sheet using insurance valuations. This is likely to result in a significant increase in the non current assets value held on the balance sheet for 2011/12.
- 5.2.4 As this is a retrospective change in accounting policy, the comparative figures for the 2011/12 Statement of Accounts will be adjusted.

5.3 Carbon Reduction Commitment (CRC) Scheme

- 5.3.1 2011/12 is the first year that the council is required to account for CRC emissions under the CRC scheme. The scheme is in its introductory phase.
- 5.3.2 Under the scheme, the council has an obligation to purchase and surrender CRC allowances in relation to carbon dioxide emissions at the reporting date. The council purchases the allowances from the government. The council surrenders the allowances to the scheme in proportion to its reported emissions for the preceding scheme year and in accordance with the scheme requirements.
- 5.3.3 The obligation arises at the point at which the energy is consumed and carbon dioxide emitted. At this point, a liability and expense are recognised by the council with the liability being discharge by the surrendering of allowances. The financial measurement of the obligation is based on the requirements under the authority's accounting policy for provisions. The liability is measured according to the best estimate of the expenditure required to settle the obligation. This is normally the number of allowances required to meet the liability at current market price. The cost of the obligation is charged to services and is apportioned on the basis of energy consumption.

5.4 Exit Packages

- 5.4.1 The 2011/12 Code requires the disclosure of exit packages paid to employees. Exit Packages include compulsory and voluntary severance costs, pension contributions in respect of added years, ex gratia payments and other departure costs.
- 5.4.2 The council is required to disclose the number of exits in bands of £20,000 up to £100,000 and bands of £50,000 thereafter analysed between compulsory redundancies and other departures. The council is also required to disclose the total cost of packages agreed in each band. Bands can be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere within the Code).

5.5 HRA Self Financing

- 5.5.1 With effect from 1st April 2012 the HRA subsidy system was abolished and replaced with a new system of self financing. Under the new system the council was required to take on additional debt totalling £18.081 million. This payment was made to central government on 28th March 2012 and will be shown as an extraordinary payment in the HRA accounts for 2011/12 in accordance with guidance issued in Local Authority Accounting Panel (LAAP) Bulletin 92.

6 HOUSING LOCAL DELIVERY VEHICLE (LDV)

- 6.1 On 23 September 2011 the council finalised an agreement to lease 499 vacant HRA properties to Brighton & Hove Seaside Community Homes Limited ("Seaside Homes Ltd"). This would be achieved over a five year period and each lease would be for 99 years. In the period to 31st March 2012 a total of 150 properties have been leased.
- 6.2 A review of the leases has been undertaken in accordance with the qualitative test required under the Code and, based on the property portfolio of all 499 properties, the council has assessed the leases as finance leases. The council's proposal is for the assets (i.e. properties) to be written out of the council's balance sheet in the year of lease and the lease premium received from Seaside Homes Ltd treated as a capital receipt.

Group Accounts Implications

- 6.3 A review of the relationship between the council and Seaside Homes Ltd has been undertaken to determine the need for group accounts within the council's Statement of Accounts.
- 6.4 The council has reviewed the relationship based on the 6 tests set out in CIPFA's Group Accounts in Local Authorities Practitioners Workbook.
- 6.5 The council and the Audit Commission have agreed that there is no requirement for Seaside Homes Ltd to be accounted for as an associate of the council and therefore no group accounts are required.

7 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

- 7.1 The changes introduced in the 2011/12 Code may give rise to a change in the net expenditure reported each year, however, any impact on Council Tax will be mitigated through statutory accounting adjustments. There are therefore no budgetary or council tax impacts from the changes highlighted in this report.

Finance Officer Consulted: Jane Strudwick Date: 27 March 2012

Legal Implications:

- 7.2 This report is for information only. The statutory provisions relevant to this report are referred to in paragraph 4.2. There are no legal implications arising from this report.

It is proper for the Audit Committee to consider this report, in line with its terms of reference.

Lawyer consulted: Sarita Arthur-Crow Date: 13 April 2012

Equalities Implications:

- 7.3 There are no equalities implications arising directly from this report.

Sustainability Implications:

- 7.4 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

- 7.5 There are no direct implications for the prevention of crime and disorder arising from this report.

Risk and Opportunity Management Implications:

- 7.6 Risks in relation to the accuracy of the financial statements are considered as part of the statutory accounts process.

Corporate / Citywide Implications:

- 7.7 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority.

SUPPORTING DOCUMENTATION

Appendices

None

Documents in Members' Rooms

None

Background Documents

None

Document is Restricted

