

# AUDIT COMMITTEE

## Agenda Item 115

Brighton & Hove City Council

<b>Subject:</b>	<b>Review of the Effectiveness of Internal Audit 2008/09</b>
<b>Date of Meeting:</b>	<b>19<sup>th</sup> May 2009</b>
<b>Report of:</b>	<b>Director of Finance &amp; Resources</b>
<b>Contact Officer:</b> Name:	<b>Ian Withers, Head of Audit &amp; Tel: 29-1323</b>
	<b>Business Risk</b>
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<b>Wards Affected:</b>	All

### FOR GENERAL RELEASE

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

#### 1. SUMMARY AND POLICY CONTEXT:

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

#### 2. RECOMMENDATION:

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

#### 3. BACKGROUND:

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

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

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

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

4. **PROCESS:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **6.1 Financial Implications:**

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

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

*Finance Officer Consulted: Stuart Taylor*

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

#### 6.2 Legal Implications:

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

*Lawyer Consulted: Elizabeth Culbert*

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

#### 6.3 Equalities Implications:

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

#### 6.4 Sustainability Implications:

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

#### 6.5 Crime & Disorder Implications:

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

#### 6.6 Risk and Opportunity Management Implications:

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

#### 6.7 Corporate / Citywide Implications:

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

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

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

### **Background Documents:**

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

## Internal Audit Effectiveness Review 2008/09

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

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

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



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

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

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

## Appendix 1

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

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

Appendix 1

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

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

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

Introduction and Methodology

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

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

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

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

Opinion on the Self-Assessment and Action Plan

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

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

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

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

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

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

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

