



***Audit & Business Risk***

**Brighton & Hove  
City Council**

**Internal Audit Annual Report  
and Opinion 2009/10**

**June 2010**

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# Introduction

## **Purpose of the report**

1. This report summarises the internal audit work undertaken by Audit & Business Risk during the financial year 2009/10, in particular the outcomes of audit reviews, management actions and counter fraud activities. The report includes the Head of Audit & Business Risk's Annual Opinion on the council's internal control environment.

## **Role of Internal Audit**

2. Internal Audit is a statutory requirement for local authorities under the Accounts & Audit Regulations 2006 (Amendment), which states that *'a relevant body shall maintain an adequate and effective system of internal audit of its system of internal control in accordance with proper internal audit practices.'*
3. The City Council's internal audit function is provided by Audit & Business Risk, part of the Finance & Resources Directorate, together with its partner Deloitte Public Sector Internal Audit Ltd.
4. Our role is to provide independent and objective assurance on the adequacy of the council's internal control environment, comprising risk management, internal control and governance by evaluating its effectiveness as a contribution to the proper economic, efficient and effective use of resources.
5. We continually seek to adapt and enhance our approach in order to take account of the council's risk profile and emerging issues, to ensure our work remains focussed on the areas of highest risk and providing value added to services.
6. Internal audit work also assists the Director of Finance & Resources in the discharge of her responsibilities as the council's Section 151 Officer.

## **Overview of the audit work carried out**

7. The original Annual Audit Plan agreed by the Audit Committee in May 2009 included a total of 119 audit reviews. The Internal Audit Plan is designed to be flexible and responsive to change and emerging risks and issues throughout the year. We have therefore liaised closely with senior management to ensure this is achieved and the Annual Internal Audit Plan has been amended accordingly to ensure it represents the best use of our resources.
8. Amendments to the Annual Internal Audit Plan are shown at Appendix B and individual reviews being deleted, merged or added with a brief explanation of the reason. The final number of planned audit reviews for the year was 110. This includes FMSiS External Assessments (15) that have effectively replaced individual schools audits.

9. At the time of preparing this report the position on these was as follows:
- 119 – Total number of audits per original plan
  - 111 – Total number of audits per revised plan
  - 85 – Final Internal Audit Reports
  - 21 – Draft Internal Audit Reports/awaiting responses
  - 5 – Audit fieldwork still in progress
10. Audits remaining at fieldwork stage are nearing audit report stage but have been delayed due a number of reasons including service pressures and availability of key client staff.
11. The percentage of the revised Internal Audit Plan at either final or draft report stage is 95% achieving the target for the year, compared to 94% for 2008/09.
12. During the year, we have had staff vacancies that earlier impacted on the achievement of the Annual Internal Audit Plan. We were however able to ‘back fill’ to through obtaining staff resources from an external internal audit provider through a framework contract.

## Head of Audit & Business Risk’s Annual Opinion

13. The level of assurance that the Head of Audit & Business Risk provides is based on the internal audit work carried out during the year. In assessing the level of assurance given, the following have been taken into account:
- The quality and performance of internal audit work;
  - Internal audit work completed during 2009/10;
  - Follow-up action taken following agreement and issue of final audit reports in 2009/10 and previous years;
  - Individual audit opinions given in internal audit reports;
  - Any significant recommendations not accepted by management and the consequence of those risks;
  - The extent to which resource constraints may limit the ability to meet the full internal audit needs of the council;
  - Impact of significant changes to the internal control environment; and
  - The quality and performance of the service and extent of compliance with the CIPFA Code of Practice for Internal Audit

14. The Head of Audit & Business Risk is satisfied that sufficient assurance work has been carried out to form a reasonable opinion on the adequacy and effectiveness of the council's internal control environment. The internal control environment comprises internal control, risk management and governance arrangements.
15. No assurance can ever be absolute, however based upon the internal audit work undertaken, our overall opinion is that **reasonable assurance can be provided that an effective system of internal control in place at the City Council for the year ended 31<sup>st</sup> March 2010 is operating effectively.**

16. Our audit work during the year has identified weaknesses and specific actions for improvement of the control environment. We will continue to work closely with management in successfully implementing actions within reasonable timescales.

### **Council's Annual Governance Statement**

17. Our assurance work and the Head of Audit & Business Risk's Annual Opinion above is a key part of the council's Annual Review of Governance Arrangements and production of the Annual Governance Statement. Key issues from audit reviews, in particular those providing limited assurance have been considered and where appropriate included in the Annual Governance Statement. For 2009/10 this included HR/Payroll, procurement and contract management.

## Internal Audit Coverage and Output

### **Outcomes from audit reviews**

18. Table 1 and 2 below illustrate the outcomes from our audit reviews where either draft or final reports have been issued. Table 1 contains an overall summary of the audit reviews carried out resulting in an assurance level (full, substantial, limited or none) being given and Table 2 audit recommendations resulting from the audit reviews. Both tables show a comparison with the previous year.
19. It should be noted that the analysis contained in the tables does not include FMSiS External Assessments, due to the different assurance criteria and type of recommendations.

**Table 1 - Assurance Levels Given**

Assurance Opinion	No. of Audit Reviews			
	2008/09		2009/10	
Full	1	1%	1	1%
Substantial	39	45%	24	27%
Reasonable	38	44%	46	51%
Limited	9	10%	16	18%
None	0	0%	0	0%
Not Included	-	-	3	3%
Totals	87		90*	

(\* Excludes 16 FMSiS External Assessments)

20. The number of audit reviews completed remains constant but there is a significant decrease in the number of audit reviews giving substantial with a corresponding increase in reasonable and limited. As part of our follow-up work we will be focussing on the audit areas and working with management to ensure actions are implemented and subsequently internal controls improved.

**Table 2 - Audit Recommendations**

No. of Audit Recommendations	2008/09		2009/10	
High	40	7%	43	6%
Medium	491	84%	607	82%
Low	52	9%	86	12%
Totals	583		736	

21. The number of high priority recommendations has remained constant but it can be seen that the number of medium priority has increased significantly.

### Audit Reviews Completed

22. A full list of specific audits where an audit report was produced is shown at Appendix A. This includes the report status being draft or final, assurance levels given and the number of recommendations/actions. These are listed under the 7 thematic review areas as contained in the Annual Internal Audit Plan.

### Counter Fraud

23. Our work covers all corporate internal fraud and corruption work. This includes increasingly proactive prevention work in managing the risk of fraud, detection and investigations.
24. During the year we received and investigated 77 referrals of suspected fraud and irregularities and of these currently 46 have been closed with 31 remaining still in progress. Of the closed cases sanctions included three employees being dismissed, one remaining pending disciplinary action and one now former employee receiving a custodial sentence of four months.

25. The council participates in the Audit Commission's National Fraud Initiative (NFI) being a data matching exercise to identify fraud and error. We have the lead role in the council for co-ordinating and investigating matches and for the current exercise have identified in excess of £496k in savings, principally overpayments of benefits. The outcome of the latest NFI exercise was reported to the Audit Committee in March 2010.
26. Other proactive counter fraud work undertaken during the year include:
- Updating and improving the effectiveness of the Whistleblowing Policy and Process
  - Working with external consultants on updating the council's a fraud risk assessment and fraud loss measurement exercise.
  - Gap analysis against the Audit Commission's "Protecting the Public Purse 2".
  - Continue to develop a close working relationship with other counter fraud agencies
  - Further development of case management software for investigations to be a proactive fraud intelligence tool.
  - Developing the role of the council's Corporate Fraud Group
  - Specific fraud awareness training around for example identity and assisting staff to recognise false documentation
  - Close liaison with other public sector organisations for a "partnership" approach to fighting fraud examples including the UK Borders Agency, Sussex Police, NHS Counter Fraud Service and various Local Authorities.

### **Corporate Support**

27. We have continued to be pragmatic in providing professional support to management through proactive advice and information. This element of our work is seen as invaluable by directorates, particularly in areas of change management. By taking this proactive approach, often problems and risks can be avoided. The most significant area for 2009/10 was Equal Pay where is excess of 100 audit days were used in providing an invaluable contribution in reducing risks. Other areas include recruitment/identity, contract management, financial management, information security, codes of conduct.

### **Other Direct Audit Activity**

28. There was an expectation by the Department for Education that all schools will have met the Financial Management Standard in Schools (FMSiS) by the end of March 2010. We are the council's preferred accredited external assessments for the achievement of the FMSiS by individual schools.
29. During 2009/10 we completed the programme and completed the remaining 9 first time external assessments for primary schools. In addition we carried out re-assessments for 7 secondary schools. We are pleased to say that 15 have passed and 1 remains as a conditional pass awaiting implementation of agreed actions.

**Table 3 - FMSiS External Assessments**

School	Result
Blatchington Mill School	Pass
Cardinal Newman Catholic School	Pass
Dorothy Stringer School	Pass
Hove Park School	Pass
Longhill School	Pass
Portslade Community College	Pass
Vardean School	Pass
Hertford Infant School	Pass
St Peters Community Infant School	Pass
Hertford Junior School	Conditional Pass
St Nicolas' CE Junior School	Pass
St Martin's CE Primary School	Pass
St Mary's RC Primary School	Pass
St Paul's CE Primary School	Pass
West Blatchington Primary School	Pass
Fairlight Primary School	Pass

30. Other direct audit activity also includes follow-up reviews on management action to implementation of agreed audit recommendations. These reviews are usually carried out within six months from agreement and issue of the final report. From follow-up reviews carried out during 2009/10, the overall level of implementation of agreed actions is 82% of which, 97% relates specifically to high priority ones.
31. At the end of 2009/10 we implemented new audit management software, with improved action tracking functionality over agreed audit recommendations. This will significantly improve our monitoring and reporting of the implementation of agreed actions to audit recommendations for the future.

## Internal Audit Performance

32. Agreed local performance indicators for internal audit based on best practice are agreed and included in the Annual Internal Audit Plan and our Service Business Plan. These are monitored and reported throughout the year.

### Summary of 2009/10 performance data

33. These local performance indicators are generally quantitative and are shown in Table 4 below, actual performance against targets set. The actuals for 2008/09 are shown in brackets for trend analysis.



**Table 4 - Performance Indicators Targets V Actuals****Completion of audits against the number identified in the Agreed Annual Internal Audit for 2009/10. Completion to final or draft report stage.**

<b>Purpose of the performance indicator:</b> to ensure that Audit & Business Risk provides sufficient coverage to provide an adequate and effective internal service, to provide sufficient assurance to management on the City Council's system of internal control and meet the requirements of the Section 151 Officer and External Audit	
<b>Target: 95%</b>	<b>Achieved:</b> 95% (2008/09 94%)

**Turnaround times of audit reports**

<b>Purpose of the performance indicator:</b> to ensure effectiveness of audit work in terms of timeliness and service delivery to clients.	
<b>Target:</b> Issue 100% of draft reports within 10 working days of completion of audit fieldwork	<b>Achieved:</b> 96% (2008/09 96%)
<b>Target:</b> Receive 100% of client responses within 15 days of issue of draft reports.	<b>Achieved:</b> 83% (2008/09 84%)
<b>Target:</b> Issue of 100% of final audit reports within 10 days of agreement with clients	<b>Achieved:</b> 87% (2008/09 86%)

**Client satisfaction levels of at least good or very good**

<b>Purpose of the performance indicator:</b> to ensure Audit & Business Risk provides a sufficient level of service in terms of quality and impact through adding value as required by its clients.	
<b>Target:</b> 92% of client satisfaction responses at least good or very good.	<b>Achieved:</b> 96% (2008/09 95%)

**Reliance by External Audit on the work of Audit & Business Risk**

<b>Purpose of the performance indicator:</b> to ensure the audit coverage and quality is sufficient to meet the statutory requirements of external audit, including the International Standards of Auditing and beneficial in terms of reducing external audit fees to the City Council.	
<b>Target:</b> Reliance	<b>Achieved:</b> Reliance (2008/09 Reliance)

34. We participate in a national benchmarking exercise operated by the Chartered Institute of Public Finance. This has shown our performance to be in the upper quartile but costs in the lower when compared to other Unitary Local Authorities.

35. The Comprehensive Performance Assessment (CAA), Use of Resources considered to be in part, a reflection of the ongoing effectiveness of internal audit activity as it contributes to and influences the quality of the internal control environment. The 2009 CAA score for Internal Control was 3 out of 4 and although the same as 2008, it was regarded a a tougher test and individual components had improved

## Service Developments in 2009/10

36. The following are key service developments during 2009/10:
- Major implementation of New Audit Management System that will increase productivity, management information (e.g. direct Audit Committee Reports) and tracking of actions from audit reviews
  - Further development of case management software for fraud referrals
  - Greater use of flexible working to increase productivity and work satisfaction of staff
  - Greater integration with the council's Risk Management function

## Service Review

37. The Accounts and Audit Regulations (Amended) 2006, require an annual review to be carried out on the effectiveness of Internal Audit. This is primarily against the CIPFA Code of Practice for Internal Audit in Local Government. This review is currently in progress awaiting Members scrutiny and approval.
38. During the year the Audit Commission carried out a review of Internal Audit required every three years by the International Standards of Auditing (IAS). The overall conclusion of this review was that *Internal Audit provides an effective service. It has a positive reputation and standing within the council which allows it to fully contribute to the corporate governance framework.* There were no actions arising from the review.

**Appendix A****Audit Reviews Completed to Draft or Final Report 2009/10**

Thematic Area	Audit	Report Status	Assurance Level	Recommendations/Agreed Actions and Priority			
				High	Medium	Low	
<b>Corporate Governance</b>	Business Continuity Planning	Final	Reasonable	0	15	3	
	Emergency Planning	Final	Reasonable	0	9	0	
	Annual Governance Statement	Final	Not Included	-	-	-	
	Business Planning	Final	Reasonable	0	3	3	
	Data Quality	Final	Reasonable	0	6	0	
	Corporate Health & Safety	Final	Reasonable	0	10	1	
	Declarations of Interest, Gifts & Hospitality	Final	Reasonable	0	5	0	
<b>Cross Cutting (Across council &amp; directorates)</b>	Insurance	Final	Reasonable	0	4	1	
	Premises Security	Final	Reasonable	0	6	0	
	Value for Money Phase 1 Benefits Realisation	Final	Reasonable	0	6	0	
	Cash Handling	Final	Limited	1	7	0	
	VAT Accounting	Final	Reasonable	1	2	1	
	Use of Natural Resources	Final	Substantial	0	11	1	
	Staff Expenses Management	Draft	Reasonable	0	19	0	
	Customer Satisfaction	Final	Reasonable	0	4	0	
	<b>Fundamental Financial Systems</b>	Main Accounting System/General Ledger	Final	Reasonable	0	6	0
		Creditors/Accounts Payable	Final	Substantial	0	3	1
Debtors/Accounts Receivable		Final	Reasonable	0	10	2	
Cash Collection and Bank		Final	Substantial	0	3	0	
Treasury Management		Final	Full	0	0	0	
Council Tax		Final	Substantial	0	5	0	
NDR (Business Rates)		Final	Substantial	0	3	0	
Housing & Council Tax Benefits		Final	Substantial	0	5	0	
Housing Rents		Final	Substantial	0	4	2	
Capital Accounting and Expenditure		Draft	Reasonable	0	4	6	
Management of Fixed Assets		Final	Reasonable	1	9	0	
Payroll/HR		Final	Limited	9	3	0	
<b>Procurement &amp; Contract Management</b>		Building Schools for the Future	Final	Reasonable	0	1	1
	Education PFI	Final	Reasonable	0	8	0	
	Street Lighting Contract	Final	Limited	6	5	5	
	City Parks Use of	Final	Reasonable	0	4	0	

Thematic Area	Audit	Report Status	Assurance Level	Recommendations/Agreed Actions and Priority		
				High	Medium	Low
	Subcontractors					
	Integrated Waste Management Contract – Charging (tonnage) to B&HCC	Final	Substantial	0	5	0
	Corporate Procurement Strategy	Final	Substantial	0	8	0
	Use of External Consultants	Final	Reasonable	0	3	0
	Contract Management	Draft	Reasonable	0	6	0
	Gas Servicing Contract	Final	Reasonable	0	12	1
	Local Delivery Vehicle for Housing	Final	Substantial	0	6	0
	Highways Minor Works	Final	Reasonable	0	5	0
	Redevelopment of London Road and the Lanes Car Park	Final	Limited	0	11	0
ICT	Service Desk/Incident Management	Draft	Reasonable	0	11	0
	ISO27001 (ICT Security Standard)	Draft	Not Included	0	2	0
	GCSX CoCo	Final	Substantial	0	3	0
	Web Content Management	Draft	Limited	2	6	0
	Human Resource System Acquisition and Implementation – Project Management	Final	Substantial	0	0	0
	HR/Payroll System – System Migration and Testing	Final	Substantial	0	2	2
	HR/Payroll System Implementation - Systems Security & Interfaces	Final	Limited	4	11	1
	Mobile Computing	Draft	Reasonable	0	5	0
	Disaster Planning and Recovery	Draft	Reasonable	1	6	1
	Telecommunications Security	Draft	Reasonable	0	10	4
	E-Procurement	Final	Substantial	0	6	0
	Telecommunications Security	Draft	Reasonable	0	10	4
	Soydus Libraries Application	Final	Reasonable	0	6	0
	Network Security	Final	Reasonable	1	13	3
	Data Transmission	Final	Limited	2	2	0
	Government Connect (COCO)	Final	Substantial	0	3	0
	Cardinal Newman School – IT Governance	Final	Reasonable	0	14	0
<b>Service Specific</b>	Special Educational Needs (SEN)	Final	Substantial	0	1	1
	ContactPoint (Children's National Index)	Draft	Substantial	0	2	0
	Schools Thematic Review – Asset	Draft	Substantial	0	5	0

Thematic Area	Audit	Report Status	Assurance Level	Recommendations/Agreed Actions and Priority		
				High	Medium	Low
	Management					
	Schools Thematic Review – Catering	Final	Substantial	0	2	0
	Culture & Enterprise Directorate Income	Final	Reasonable	0	14	2
	On-Street and Off Street Parking Income	Final	Reasonable	0	5	1
	Building Control	Final	Limited	0	7	0
	King Alfred Leisure Centre	Final	Reasonable	0	7	1
	Seafront Services	Final	Limited	6	4	0
	Golf Courses	Final	Substantial	0	4	0
	Blue Badges	Draft	Limited	1	14	5
	Brighton Centre	Draft	Reasonable	0	3	4
	Royal Pavilion	Final	Reasonable	0	11	0
	Concessionary Fares	Final	Substantial	0	2	0
	Bereavement Services	Final	Limited	0	43	0
	International Financial Reporting Standards	Final	Substantial	0	4	1
	Automation of Imprest Accounts Processing	Draft	Reasonable	0	3	0
	Supporting People	Draft	Reasonable	0	9	2
	Housing Allocations	Final	Substantial	0	4	0
	Housing Tenancy Management	Draft	Limited	0	13	11
	Temporary Accommodation	Draft	Limited	3	9	0
	Housing Decent Home Standard – Data Quality	Final	Reasonable	0	3	1
	Adult Social Care – Data Quality	Final	Reasonable	0	5	1
	Integrated Community Equipment Store (ICES)	Final	Limited	4	4	2
	Delayed Transfers	Final	Reasonable	0	2	0
	Client Billing	Final	Reasonable	0	6	2
	Clients' Money	Final	Reasonable	0	8	0
	Home Care	Final	Reasonable	0	1	0
	Residents Parking Permits	Draft	Limited	1	13	8
	Mayor's Charities	Final	Limited	0	6	0
	Learning Disabilities Budget: Continuing Health Care Funding	Draft	Not Included	0	6	0
	Financial Management Standard in Schools (Overview)	Draft	Substantial	0	2	1
<b>Counter Fraud</b>	Whistleblowing Policy & Arrangements	Final	Reasonable	0	14	0
	RIPA & Surveillance Procedures	Final	Reasonable	0	23	0

**Appendix B****Amendments to the Annual Internal Audit Plan for 2009/10**

Action	Area	Planned Audit	Reason/Comments
Deferred to 2010/11	Corporate Governance	Governance of Partnerships	Audit review commenced but due to late agreement by client to the 2008/09 audit, agreed that audit would be of better value if deferred to 2010/11.
Deleted from Annual Plan	Corporate Governance	Risk Management	Review undertaken by the Audit Commission as part of Opinion Audit and outcome positive.
Deleted from Annual Plan	Cross Cutting	Transport Fleet Management	Duplication with other departmental review work and inclusion in VFM Programme. Support still provided through advice.
Deleted from Annual Plan	Cross Cutting	Flexible Working/Workstyles	Duplication with VFM Review work. Although no audit, support provided to VFM review in terms of providing advice.
Deleted from Annual Plan	Cross Cutting	Customer Access Project	Risk reduced
Deleted from Annual Plan	Cross Cutting	Accommodation Utilisation and Strategy	Duplication with VFM Review work. Although no audit, support provided to VFM review in terms of providing advice.
Deferred (in part) to 2010/11	ICT	Third Party Remote Access	Audit commenced but shortly after ICT Manager went off on long term sick. Completion of audit deferred to 2010/11
Merged with general audit	ICT	ContactPoint	Merged with non ICT audit and Service Specific.
Deferred to 2010/11	ICT	Use of Spreadsheets & Databases	Awaiting system/software inventory to be completed in June 2010 to provide starting point for audit.
Deferred to 2010/11	ICT	Data Management and Security Arrangements	Duplication with GCSX work being carried out in ICT. During 2009/10 regular meetings held and advice given on emerging risks/issues.
Deleted from Annual Plan	ICT	ICT Strategy	Due to changes in the council audit not considered to add value in 2009/10.
Deleted from Annual Plan	Service Specific	Waste Enforcement	Service reorganisation and reduced risk
Deleted from Annual Plan	Service Specific	Libraries (Stock Management)	Merged with ICT audit reviewing system application that controls stock.
Deleted from Annual Plan	Service Specific	Support to asylum seekers with no right to remain in the UK and recourse to public funds	Considered duplication and no added value from review due to other work being carried out by Financial Services and Adult Social Care to address the issues.
Merged with Council Tax Audit	Service Specific	Council Tax Single Persons Discounts and Exemptions	Merged with main audit of Council Tax. However close liaison, advice and support given to Single Persons Discount exercise by Revenues & Benefits with Northgate.
Deferred to 2010/11	Procurement and Contract Management	Integrated Waste Management Contract – Contract Management	Due to service pressures from staff shortages on the Contract Manager, agreed to defer the audit to 2010/11 with agreement of the Joint Audit Group and IWMC Project Board

Action	Area	Planned Audit	Reason/Comments
Deferred to 2010/11	Counter Fraud	Money Laundering Policy & Arrangements	Updated guidance delayed from CIPFA.
Added to Annual Plan	Service Specific	Home Care	Review requested by management on follow-up to VFM Review
Added to Annual Plan	ICT	E-Procurement	Deferred from 2008/09 due to client availability.
Added to Annual Plan	Service Specific	Mayor's Charities	Requested by management due to issues arising.
Added to Annual Plan	Service Specific	Continuing Care	Audit investigation requested by management due to financial risk to the council.
Added to Annual Plan	Contracts and Procurement	Highways Minor Works	Increase in risk during the year and issues raised.
Added to Annual Plan	Contracts and Procurement	Car Park Development	Requested by management due to issues arising.
Added to Annual Plan	Service Specific	Financial Management in Schools (Overview)	Overview required for assurance to the Department for Education
Added to Annual Plan	ICT	Cardinal Newman – IT Governance	Review requested by school and carried out as a pilot to roll out as thematic review for other schools in 2010/10.

**Appendix C****Definitions of Audit Opinions**

<b>Level of Assurance</b>	
<b>Full</b>	There is a sound system of control designed to achieve the system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
<b>Substantial</b>	Whilst there is a basically sound system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
<b>Reasonable</b>	Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and result in residual risk. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the City Council.
<b>Limited</b>	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance lead to an increased risk of loss to the Authority. Not all major risks are identified and/or being managed effectively.
<b>No</b>	Control is generally very weak or non-existent, leaving the system open to significant error or abuse and high level of residual risk to the City Council.  A high number of key risks remain unidentified and/or unmanaged.



**Definitions of Audit Recommendations**

<b>Priority</b>	<b>Assessment</b>	<b>Timescale for Implementation</b>
<b>High</b>	<p><b>Fundamental</b> There is a <b>weakness</b> in control that represents <b>immediate</b> material risk to the City Council or a service and requires urgent attention by management.</p> <p>These issues generally merit the attention of senior management.</p>	Actions to address recommendations should in a number of cases be immediate and at least within three months.
<b>Medium</b>	<p><b>Significant</b> There is weakness in control and a <b>risk</b> of material inaccuracy/loss to the City Council or a service area and requires corrective action/attention by local management within a <b>reasonable</b> period.</p>	Should be implemented within 6 months
<b>Low</b>	<p><b>Merits Attention</b> Minor matters where there is a weakness or opportunity for improvement, which does not expose the service/system under review to any significant risk, but management should consider taking action.</p>	No set time period.

## **Terms of Reference for the provision of Internal Audit Services**

### **1. Purpose**

- 1.1 The Terms of Reference is for the provision of Internal Audit Service within Brighton & Hove City Council. It is reviewed and approved on an annual basis to ensure that current needs are met.

### **2. Role and Function**

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion and adds value to the City Council 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. The service is delivered by the Audit & Business Risk Division within the Finance & Resources Directorate.
- 2.2 The control environment comprises the systems of governance, risk management and internal control.

### **3. Reporting Lines & Relationships**

- 3.1 Audit & Business Risk provide the City Council's internal audit function and are part of the Finance & Resources Directorate. The Head of Audit & Business Risk reports functionally to the Chief Executive, Director of Finance & Resources (Section 151 Officer), other Directors and members of the Audit Committee. Administratively the Head of Audit & Business Risk also reports to the Director of Finance & Resources.
- 3.2 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.

### **4. Independence and Accountability**

- 4.1 Internal Audit will remain 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 responsibility.

- 4.2 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.
- 4.3 The existence of an internal audit function within the City 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.

## **5. Statutory Role**

- 5.1 Internal auditing is provided as a statutory service in the context of the Accounts & Audit Regulations 2003 (as amended 2006), which states that a relevant body shall maintain an adequate and effective system of internal audit of its accounting systems and its system of internal control in accordance with the proper Internal audit practices.
- 5.2 The statutory role is recognised and endorsed within the City Council's Financial Regulations, which provides the authority for unlimited access to officers, Members, documents and records and to require information and explanation necessary.

## **6. Consultancy and Advisory Role**

- 6.1 Audit & Business Risk also perform a consultancy or advisory role on an ad hoc basis or as part of the Annual Internal audit Plan, as requested by management. Reports from this type of work contain findings and recommendations particularly to add value to the City 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 2003 (as amended 2006).

## **8. Internal audit Scope**

- 8.1 The scope for Audit & Business Risk is 'the control environment comprising risk management, control and governance'. This means that the scope of Audit & Business Risk includes all of the City 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 Internal audit Resources**

- 9.1 Audit & Business Risk 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 Audit & Business Risk 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 & Resources (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 City Council, they do not undertake an audit in that area directly within one year unless by prior agreement.

## **10. 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. Audit & Business Risk 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. Reporting Accountabilities**

- 11.1 A written internal audit report will be prepared for every audit carried out and issued to the appropriate manager responsible for the area under review. Internal audit reports will include an 'opinion' on the risk and adequacy of controls, which together will contribute to the annual audit opinion on the City Council's control environment.
- 11.2 Audit & Business Risk will make practical recommendations based on the findings of the audit work and discuss these with management to establish appropriate action plans.
- 11.3 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.

- 11.4 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.
- 11.5 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.

## **12. Responsibilities**

- 12.1 In meeting its responsibilities, the activities of Audit & Business Risk will be conducted in accordance with the City Council's objectives, established policies and procedures. In addition, internal auditors comply with the Code of Practice for Internal Audit in Local Government (CIPFA).
- 12.2 Audit & Business Risk will co-ordinate effectively with the Audit Commission (as the City Council's appointed external auditors) for optimal audit coverage and to ensure that appropriate reliance can be placed on internal audit work.
- 12.3 Audit & Business Risk will work the internal audit functions of the City Council's partner organisations to ensure the robustness of controls and risk management arrangements, to protect the City Council's interests.

