

AUDIT COMMITTEE

Agenda Item 21

Brighton & Hove City Council

Subject:	Review of the Effectiveness of the System of Internal Audit 2009-10		
Date of Meeting:	29th June 2010		
Report of:	Director of Finance & Resources		
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Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

FOR GENERAL RELEASE

The special circumstance 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) is that clarification was being sought on the requirements of the Accounts and Audit Regulations 2003 (as amended) specifically whether this review was needed to be reported to the Audit Committee in June.

1. SUMMARY AND POLICY CONTEXT:

- 1.1 To advise Members of the process and outcomes of the Review of the Effectiveness of the Council's System of Internal Audit for 2009/10.
- 1.2 The Accounts and Audit Regulations 2003 were amended in 2006 with the new reporting requirements for local authorities, on the Effectiveness of the System of Internal Audit. Specifically to undertake an annual review of the effectiveness of its system of internal audit and for the findings to be considered by a committee (the Audit Committee) of that body. This is part of the consideration of the system of internal control to produce the Annual Governance Statement.
- 1.3 An effective Internal Audit service is a key part of the council's governance arrangements and for adding value to its services.

2. RECOMMENDATIONS:

- 2.1 It is recommended that the Audit Committee considers the findings of the Review of the Effectiveness of the System of Internal Audit and notes actions arising for minor improvement.
- 2.2 To note the conclusion of the review that based upon the resulted, the council's system of Internal Audit is considered to be operating in accordance with accepted professional practice and it remains effective. The council can therefore continue to place reliance on its internal audit arrangements for the purpose of the Annual Governance Statement.
- 2.3 To note for the 2010/11 review, the establishment of a Members sub-group of the Audit Committee has been agreed to assist in carrying out.

3. BACKGROUND

Legislative Requirements

- 3.1 The Accounts and Audit Regulations 2003 were amended in 2006 with the new reporting requirements for local authorities, on the effectiveness of the system of Internal Audit. Specifically to undertake an annual review of the effectiveness of its system of internal audit and for the findings to be considered by a committee (the Audit Committee) of that body.
- 3.2 All local authorities have a statutory requirement to make provision for internal audit and for the purpose of the regulations, in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government (2006).

Defining the effectiveness of the system of Internal Audit

- 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 (or principles), thirty seven related areas and one hundred and six specific questions to form the basis of assessment.
- 4.2 The Standards comprise the following areas:
- 1) Scope of Internal Audit (Terms of Reference)
 - 2) Independence
 - 3) Ethics of Internal Auditors
 - 4) Audit Committee (including Internal Audit's relationship with the Audit Committee)
 - 5) Relationships (with management, elected Members and other auditors)
 - 6) Staffing, Training and Continuing Professional Development
 - 7) Audit Strategy and Planning
 - 8) Undertaking Audit Work
 - 9) Due Professional Care
 - 10) Reporting
 - 11) Performance, Quality and Effectiveness
- 4.3 Further details of the areas under each standard and a summary of compliance against the CIPFA Code of Practice Checklist is shown at Appendix 1.
- 4.4 The council is a member of the CIPFA Benchmarking Club for which data is submitted to provide comparisons with other unitary councils. Data from the report provided was used to provide further evidence to support this review. For the 2009/10 benchmarking exercise the council's Internal Audit was in the upper quartile in terms of performance and efficiency and lower quartile in terms of costs when compared to other unitary councils.
- 4.5 Guidance to undertaking the review suggests there are a number of options available to authorities, for carrying out the review which includes:
- The Head of Internal Audit
 - A sub-group of the audit committee
 - A review group of officers
 - Peer review
 - External assessment, or
 - A group of members and officers

- 4.6 For the 2009/10 the review was carried out by the Head of Audit & Business Risk and a peer review group, consisting of Heads of Internal Audit from the London Boroughs of Bexley and Bromley. The full checklist and all supporting documentation was reviewed and observations and recommendations made.
- 4.7 For the 2010/11 it is planned for a Members sub-group of the audit committee to be established to provide additional challenge and a greater understanding of Internal Audit.

5. FINDINGS OF REVIEW

- 5.1 Compliance against the criteria (106) contained in the CIPFA Code of Practice is considered to be as follows:
- Fully Compliant 101 (95%)
 - Partial Compliant 4 (4%)
 - Non Compliant 0 (0%)
 - Not applicable 1 (1%)
- 5.2 Those criteria assessed as partial are minor in nature and not considered to impact on the effectiveness of Internal Audit. For example Standard 2, criteria 2.2.3 relating to organisational independence requires the Head of Audit & Business Risk to report in his or her own name. This is compliance to this, with the exception of committee reports which in accordance with the council's protocol are in the name of the Director. The Head of Audit & Business Risk is however the author of the reports and has a high degree of autonomy as to contents. There is therefore no action to address the partial compliance.
- 5.3 The non applicable criteria item relates to a paper based audit documentation system, whereas the council's Internal Audit's is electronic.
- 5.4 Although not considered to be significant in terms of impacting on the effectiveness of Internal Audit, actions have been identified and will be implemented during 2010/11 address the three remaining partial compliance items. These are:
- Finalise protocol with external audit
 - Updating of Audit Manual for quality assurance
 - Update Terms of Reference template for audit reviews to include details of circulation of the internal audit report
- 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. AUDIT COMMISSION REVIEW OF INTERNAL AUDIT

- 6.1 During 2009/10 the Audit Commission carried out a review of Internal Audit, required every three years by the International Standards of Auditing (ISAs). The

Audit Commission review was reported to the Audit Committee in December 2009. The conclusions of the Audit Commission have been used for this review.

6.2 The main conclusions from the Audit Commission were:

- Internal Audit provides an effective service. It has a positive reputation and standing within the Council which allows it to contribute fully to the corporate governance framework.
- Internal Audit has achieved compliance with the CIPFA Code Of Practice
- The work of Internal Audit is properly planned, supervised, reviewed and reported, and our review of specific projects indicates that a good standard is reached. Progress against the audit plan and annual targets is regularly reported to the Audit Committee. Internal Audit is instrumental in aiding the Council to achieve its objectives in terms of governance and particularly in embedding the anti-fraud culture.
- Internal Audit staff have appropriate skills and training to undertake their roles effectively. The function has a strong profile within the Council and a high degree of independence. It is reasonably resourced, using contractors where necessary, and each team member has an Individual Learning and Development Plan which is regularly updated. Staff are aware of their ethical responsibilities and act with due professional care;
- We are able to place reliance on the work of Internal Audit in conducting our own audits subject to sample review annually which is required by the international Standards on audit.
- Internal Audit's relationship with the Audit Commission is well-established as it is with other Internal Audit teams in Sussex.

6.3 There were no actions arising from the Audit Commission review, for any improvements required.

6. FINANCIAL & OTHER IMPLICATIONS:

6.1 Financial Implications:

All improvements identified within this review will be funded from within the existing budget of Audit & Business Risk.

Patrick Rice
Acting Assistant Director Financial Services

23rd June 2010

6.2 Legal Implications:

The relevant statutory provisions are referred to in paragraphs 3.1 above.

Oliver Dixon
Lawyer

23rd June 2010

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 Checklist Summary

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 2009/10
4. Internal Audit Terms of Reference for the Council

Compliance with the CIPFA Code of Practice for Internal Audit Checklist Summary

CIPFA Standard	Areas	Total No. criteria for standard	No. of FULLY MET criteria	No. of PARTIALLY MET criteria	No of NOT MET criteria	No. of N/A criteria
Scope of Internal Audit	Terms of Reference Scope of Work Other Work Fraud & Corruption	9	9	0	0	0
Independence	Principles of Independence Organisational Independence Status of Head of Internal Audit Independence of Internal Audit Contractors Declarations of Interest	10	9	1	0	0
Ethics for Internal Auditors	Purpose Integrity Objectivity Competence Confidentiality	6	6	0	0	0
Audit Committees	Purpose of the Audit Committee Internal Audit's relationship with the Audit Committee	6	6	0	0	0

CIPFA Standard	Areas	Total No. criteria for standard	No. of FULLY MET criteria	No. of PARTIALLY MET criteria	No of NOT MET criteria	No. of N/A criteria
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	8	7	1	0	0
Staffing, Training and Continuing Professional Development	Staffing Internal Audit Training and Continuing Professional Development	7	7	0	0	0
Audit Strategy and Planning	Audit Strategy Audit Planning	11	11	0	0	0
Undertaking Audit Work	Planning Approach Recording Audit Assignments	11	10	0	0	1
Due Professional Care	Responsibilities of the Individual Auditor Responsibilities of the Head of Internal Audit	3	3	0	0	0

CIPFA Standard	Areas	Total No. criteria for standard	No. of FULLY MET criteria	No. of PARTIALLY MET criteria	No of NOT MET criteria	No. of N/A criteria
Reporting	Principles of Reporting Reporting of Audit Work Follow-up Audits and Reporting Annual Reporting and Presentation of Audit Opinion	16	15	1	0	0
Performance, Quality and Effectiveness	Principles of Performance, Quality and Effectiveness Performance and Effectiveness of the Internal Audit Service	19	18	1	0	0
Totals		106	101	4	0	1