

**Subject:** Internal Audit Progress Report  
**Date of Meeting:** 14<sup>th</sup> December 2010  
**Report of:** Director of Finance  
**Contact Officer:** Name: Ian Withers Tel: 29-1323  
E-mail: [ian.withers@brighton-hove.gov.uk](mailto:ian.withers@brighton-hove.gov.uk)  
**Wards Affected:** All

### FOR GENERAL RELEASE

#### 1. Summary and Policy Context

- 1.1 This report summarises the progress by the Audit & Business Risk against the Internal Audit Plan for 2010/11, provides the results from reviews completed since the report to the last Audit Committee meeting in September and reports the achievement against Internal Audit Key Performance Indicators.

#### 2. Recommendation

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2010/11.

#### 3. Background Information

- 3.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.
- 3.3 The audits contained in the Internal Audit Plan 2010/11 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

3.4 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports that include agreed actions to audit recommendations made, are issued to the responsible Director.

**4. Progress against the Internal Audit Plan 2010/11**

4.1 The progress against the amended Internal Audit Plan for 2010/11 for audit reviews is summarised in Table 2 below.

**Table 1: Summary of progress against Internal Audit Plan 2010/11 (Audit Reviews)**

<b>Audit Stage</b>	<b>Explanation</b>	<b>No.</b>	<b>%</b>
Not Started	Planned but not started	35	31
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	34	30
Draft Report	Draft audit report issued and being agreed with client	16	14
Final Report	Final agreed audit issued and audit complete	28	25
		113	100

4.1 There are currently two vacancies that have impacted on the achievement of the Annual Internal Audit Plan. This is partly due to normal staff turnover and market shortage of internal auditors restricting effective recruitment.

4.2 To ensure achievement of the Internal Audit Plan we are in the process of agreeing to outsource a number of audit reviews for the remainder of the year to Deloitte & Touche under a framework contract with the London Borough of Croydon.

4.3 We are also liaising with other local authorities to share staff resources in the future to provide a cost effective solution, in particular to back fill vacancies, meet peak demands and “specialist” audit staff such as computer and contracts audit.

4.4 We are confident in completing the Internal Audit Plan for 2010/11. This is however a dynamic plan and subject to change to address emerging risks and issues facing the council.

**5. Final Audit Reports Issued**

5.1 Since the last progress report at the end of September, a further seventeen audit reviews have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level.

5.2 Audit reports are issued as final where their contents have been agreed with client management, in particular management actions with responsibility and timescale. The audit is then effectively closed except for the scheduled implementation review of agreed actions.

5.3 Members should note that none of the final reports above have given assurance levels of limited or no assurance.

**Table 2: Final Reports Issued**

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
Museums Service	Substantial	0	7	2
Section 75 Agreements (Children's Services)	Substantial	0	3	0
Energy Grants	Reasonable	0	9	0
Parks & Open Spaces Income	Reasonable	0	10	6
Residential Care for the Elderly	Reasonable	1	7	1
Managing Commercial Properties	Reasonable	0	16	0
Property Legal Compliance	Reasonable	0	6	0
Seafront Services	Reasonable	0	5	0
Learning Development Centre	Substantial	0	4	1
ICT Contract Arrangements	Reasonable	0	7	0
Future Jobs Fund	Substantial	0	4	0
Hangleton School Governance Arrangements	Reasonable	0	4	0
iTrent interface to Authority Financials	Substantial	0	1	0
iTrent Parallel Run Process PG5	Reasonable	0	0	0
iTrent Parallel Run Process PG3	Reasonable	0	1	0
Management of Events	Reasonable	0	16	8
Capital Programme Management	Reasonable	0	8	0

5.4 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks for each audit is a professional practice requirement. Members should note that the assurance levels assigned and agreed are subjective and based on materiality and significance. They often therefore have no direct relationship with the number of agreed actions to audit recommendations made.

5.5 There are currently five levels of audit assurance used and these are summarised as follows:

<b>FULL</b>	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
<b>SUBSTANTIAL</b>	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
<b>REASONABLE</b>	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
<b>LIMITED</b>	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
<b>NO</b>	Control is significantly weak or non existent leaving the system open to high level of risk from abuse, fraud and error.

## 6. Advice and Support Corporate and Directorates

- 6.1 We have continued to be pragmatic in providing professional advice and support. This element of our work is seen as invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 6.2 It is good to report an increasing level of demand for advice and support across the council. Areas include waste management, iTrent (HR and Payroll) implementation, equal pay, contract management, information security and schools.

## 7. Counter Fraud Work

- 7.1 Since April 2010 thirty five new cases of suspected irregularities have been referred to Audit & Business Risk and investigated.
- 7.2 We have recently completed a major review of Fraud Risk Analysis and Measurement with Deloitte & Touche and this is being reported separately to the Audit Committee..
- 7.3 We are currently scoping a major pro-active exercise on housing tenancy fraud. This will include involvement of the National Anti Fraud Network (NAFN) and Experian for providing intelligence information for the detection of fraudulent tenancies. It is also one of seven national pathfinders of the National Fraud Authority (NFA).

7.4 We have investigated/closed 98% of the 26k data matches from the National Fraud Initiative (NFI) 2008/09 exercise. This has so far resulted in additional income/overpayments of £516k. We are currently preparing for the NFI 2010 exercise which includes additional data sets. A separate report on the National Fraud Initiative will be made to the April meeting of the Audit Committee.

## 8. Implications for Governance

8.1 No control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year, considered having a significant impact on the governance of the council.

## 9. Performance of Internal Audit

9.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also included in our Service Business Plan and monitored regularly. Table 4 provides an overview of the performance of Audit & Business Risk against the key targets set.

**Table 3: Performance against targets**

Performance Indicators	Target for Year	Actual to Date
<b>Effectiveness</b>		
% of recommendations agreed	98%	99%
% implementation of agreed management actions	85%	84%
<b>Efficiency</b>		
% of planned direct days delivered for year	100%	53%
% of productive time	71%	74%
Achievement of Annual Internal Review to Final Report	100%	25%
% of draft reports issued within 10 days of fieldwork completion	90%	95%
% response by client to draft reports within 15 days	90%	93%
% of issue of final reports within 10 days of agreement	95%	98%
<b>Quality of Service</b>		
% of customer satisfaction feedback in very good or good	90%	98%

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

### 10.1 Financial Implications:

The Internal Audit Plan for 2010/11 will be delivered within existing budgetary resources. In considering resources allocated to internal audit work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley  
Head of Business Engagement

2<sup>nd</sup> December 2010

### 10.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2003 require the Council to maintain an adequate and effective system of 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 a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon  
Lawyer

2<sup>nd</sup> December 2010

### 10.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

### 10.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

### 10.5 Crime & Disorder Implications:

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

### 10.6 Risk and Opportunity Management Implications:

The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.

### 10.7 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**

### **Background Documents**

1. Internal Audit Plan 2010/11
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2003 (Amended 2006)

