

AUDIT & STANDARDS COMMITTEE

Agenda Item 13

Brighton & Hove City Council

Subject: Review of the Effectiveness of the System of Internal Audit for 2011/12

Date of Meeting: 26th June 2012

Report of: Director of Finance

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Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Council is required to conduct an annual review of the effectiveness of its Internal Audit, the findings of which to be considered by a committee (the Audit & Standards Committee) of that body.
- 1.2 This is the fourth year the Audit & Standards Committee (previously Audit Committee) has been presented with a review of the effectiveness of Internal Audit. The process is also regarded as part of the wider annual review of the Council's governance arrangements and production of 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:

It is recommended that the Audit & Standards Committee:

- 2.1 Considers the findings of the review of the effectiveness of the system of internal audit for 2011/12 and notes actions arising for minor improvement.
- 2.2 Note the conclusion of the review that the system of internal audit for Brighton & Hove City Council continues to be effective and operating in accordance with accepted professional practice. Further that the Council can place reliance on the system of internal audit for the purpose of its Annual Governance Statement.

3. BACKGROUND

Legislative Requirements

- 3.1 Regulation 6 of the Accounts and 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. Further it must at least once in each year, *“conduct a review of the effectiveness of its internal audit and have the findings considered by a committee”*.
- 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 Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government (2006).
- 3.3 This is the fourth year that the Audit Committee (now Audit & Standards Committee) has been presented with a review of the effectiveness of the system of internal audit for the previous financial year.

Defining the Effectiveness of system of Internal Audit

- 3.4 To be “effective” the 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

Code of Practice for Internal Audit in Local Government

- 4.1 For 2011/12, the review was carried out by self assessment against the CIPFA Code of Practice for Internal Audit in Local Government and relatively light touch. This was because new Public Sector Internal Audit Standards and associated Local Government Code are expected during 2012/13. A comprehensive review against the new standards is therefore planned for 2012/13 and will include a Members workshop.
- 4.2 The current CIPFA Code of Practice for Internal Audit in Local Government (2006) (the Code) is considered proper practice for Internal Audit under the Accounts and Audit Regulations 2011, The Code comprises eleven standards (or principles), thirty seven related areas and one hundred and six specific questions to form the basis of assessment.
- 4.3 The Standards comprise the following areas:
- 1) Scope of Internal Audit (Terms of Reference)
 - 2) Independence
 - 3) Ethics of Internal Auditors
 - 4) 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
- 4.4 Further details of the areas under each standard and a summary of compliance against the CIPFA Code of Practice self assessment is shown at Appendix 1.

Benchmarking of Internal Audit

- 4.5 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 the effectiveness review.

Statement on the Role of the Head of Internal Audit

- 4.6 In December 2010, CIPFA published a 'Statement on the Role of the Head of Internal Audit in public sector organisations'. The Statement sets out best practice for Heads of Internal Audit to aspire to measure against. The Statement sets out five principles that define the core activities and behaviours of the Head of Internal Audit. In addition the Statement sets out the governance arrangements required within an organisation to ensure that Head of Internal Audit are able to operate effectively.
- 4.7 A detailed review against the Statement was carried out to identify issues of non compliance.

Restructure of Internal Audit Service

- 4.8 During 2011/12, a restructure was carried out to reduce costs whilst changing the staff skills mix to meet the future needs and challenges facing the Council. The restructure is currently being implemented.

5. FINDINGS OF REVIEW

Self Assessment against the Code of Practice for Internal Audit in Local Government

- 5.1 Compliance against the criteria (106) contained in the CIPFA Code of Practice is self assessed as follows:
- Full Compliance 101 (95%)
 - Partial Compliance 4 (4%)
 - No Compliance 0 (0%)
 - Not applicable 1 (1%)
- 5.2 The self assessment remains constant with the effectiveness review carried out for 2010/11.
- 5.3 The one not applicable criteria item, relates to a paper based audit documentation system, whereas the Council's Internal Audit documentation process is fully electronic.
- 5.4 Those criteria assessed as partial are minor in nature and not considered to impact on the effectiveness of Internal Audit. One action will be taken during 2012/13 to address three out of four non criteria compliance:
- Review and update of the Audit Manual

- 5.5 The fourth partial compliance relates to the Head of Audit & Business Risk to report in his or her own name. The only exception to this is in respect of committee reports for Internal Audit, which in accordance with the Council's protocol, are in the name of the Director of Finance. The Head of Audit & Business Risk is however the author of the committee reports and has a high degree of autonomy as to their contents. There is therefore no action required to address this partial non compliance.
- 5.6 Other actions will be taken, resulting from the self assessment to further improve the Internal Audit Service, even though fully meeting the Code of Practice criteria;
- Review and update of Terms of Reference for Internal Audit
 - Update to Declarations of Interest
 - Review and update competency framework for Internal Audit staff
 - Review and update Internal Audit Report Format
 - Improve the effective use of the Action Tracking Module on Audit Management System (Galileo)
- 5.7 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.

Outcome of Benchmarking of Internal Audit

- 5.8 Results from the 2011/12 benchmarking exercise showed the Council's Internal Audit to continue to be above average for performance and efficiency and below average in terms of service costs when compared with other Unitary Councils.

Statement on the Role of the Head of Internal Audit

- 5.9 The assessment against the criteria contained in the Statement identified no significant non compliance issues but the following are action to be taken:
- A mechanism, to ensure that the Head of Audit & Business Risk is consulted on all proposed major projects, programmes and policy initiatives;

6. FINANCIAL & OTHER IMPLICATIONS:

6.1 Financial Implications:

The minor improvements identified within this review can be managed within the budget of Audit & Business Risk of £582k for 2012/13.

Anne Silley
Business Engagement Manager
Financial Services

14th June 2012

6.2 Legal Implications:

The Audit & Standards Committee is the Council's designated committee for discharging the statutory duty under Part 2 of The Accounts and Audit (England) Regulations 2011 to consider the findings of the Council's review of the effectiveness of its system of internal control.

Oliver Dixon
Acting Senior Lawyer

14th June 2012

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 Self Assessment Summary

Background Documents

1. Accounts & Audit Regulations 2011 (Amended)
2. CIPFA Code of Practice for Internal Audit in Local Government (2006) and checklist
3. CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2011)
4. Internal Audit Strategy and Annual Audit Plan 2011/12
5. Internal Audit Terms of Reference for Brighton & Hove City Council
6. The Developing Internal Audit Agenda, Grant Thornton 2012

Compliance with the CIPFA Code of Practice for Internal Audit - Self Assessment Summary

CIPFA Standards/ Principles	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	
Independence	Principles of Independence Organisational Independence Status of Head of Internal Audit Independence of Internal Audit Contractors Declarations of Interest	10	9	1	0	
Ethics for Internal Auditors	Purpose Integrity Objectivity Competence Confidentiality	6	6	0	0	
Audit Committees	Purpose of the Audit Committee Internal Audit's relationship with the Audit Committee	5	5	0	0	

CIPFA Standards/ Principles	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	10	9	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 Standards/ Principles	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	18	17	1	0	0
Totals		106	101	4	0	1