

# **AUDIT & STANDARDS COMMITTEE**

**Agenda Item 37**  
Brighton & Hove City Council

**Subject:** Internal Audit Progress Report 2012/13  
**Date of Meeting:** 25<sup>th</sup> September 2012  
**Report of:** Director of Finance  
**Contact Officer:** Name: Ian Withers, Head of Audit & Tel: 29-1323  
Business Risk  
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**Wards Affected:** All

## **FOR GENERAL RELEASE**

### **1. Summary and Policy Context**

- 1.1 The purpose of this report is to inform Members of the progress made against the Internal Audit Plan 2012/13, including outcomes of specific audit reviews completed, agreed management actions and Internal Audit Key Performance Indicators.
- 1.2 The Audit & Standards Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.
- 1.3 Good progress continues to be made in the delivery of the Internal Audit Plan 2012/13, due by the end of March 2013.

### **2. Recommendations**

- 2.1 That the Committee notes the progress made in delivering the Annual Internal Audit Plan 2012/13, outcomes achieved and current arrangements going forward to 31st March 2013.

### **3. Background Information**

- 3.1 The Accounts and Audit Regulations 2011 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, which includes reporting the outcome of its work to the Audit & Standards Committee.
- 3.2 The Audit & Standards Committee's responsibilities include reviewing the Council's corporate governance arrangements, including internal controls and formal approval of an 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 Internal Audit Plan 2012/13 detailing the programme of audit reviews was approved by the previous Audit Committee at its meeting in April 2012.
- 3.4 The programme of audit reviews contained in the Internal Audit Plan 2012/13 is 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 Head of Service, Lead Commissioner or Strategic Director.

**4. Progress against the Internal Audit Plan 2012/13**

- 4.1 Table 1 below provides a summary of the progress made against the Internal Audit Plan 2012/13. During the period 1<sup>st</sup> April to 8<sup>th</sup> September 2012, the Internal Audit Team has commenced or completed 48 audit reviews.

**Table 1: Internal Audit Plan 2012/13 Progress (Audit Reviews)**

| <b>Audit Status</b> | <b>Explanation</b>  | <b>No.</b> |
|---------------------|---|------------|
| Not Started         | Planned but not started   | 63         |
| Fieldwork           | In progress (Interviews, documenting, evaluating and testing of risks and controls) | 28         |
| Draft Report        | Draft audit report issued and being agreed with client                              | 7          |
| Final Report        | Audits completed and final report issued  | 13         |
|                     |   | 111        |

- 4.2 Audit & Business Risk is confident of completing the Annual Internal Audit Plan for 2012/13 through re-profiling of the plan and where required outsourcing a number of audit reviews to Deloitte under existing contract arrangements.

**5. Changes to the Annual Internal Audit Plan**

- 5.1 Members are advised that since the Internal Audit Plan 2012/13 was approved, there have been no significant changes made.

**6. Audit Reviews Completed**

- 6.1 Audit reports are issued as final once 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.
- 6.2 During the period 1st April to 8th September for Annual Internal Audit Plan 2012/13, 13 audit reviews have been completed and final reports issued.

These are shown in table 2 below which includes the overall level of assurance, number and classification of agreed management actions in respect of audit recommendations made.

**Table 2: Summary of Completed Audit Reviews (Final Reports)**

| Audit   | Assurance Level | Agreed Actions and Priority |        |     |
|---|-----------------|-----------------------------|--------|-----|
|   |                 | High                        | Medium | Low |
| Annual Governance Statement                     | -               | -                           | -      | -   |
| External Funding                                | Substantial     | 0                           | 5      | 1   |
| Schools Electronic Payments to Suppliers (BACS) | Limited         | 1                           | 4      | 0   |
| Home Education                                  | Substantial     | 0                           | 2      | 0   |
| Income Banking Arrangements                     | Reasonable      | 0                           | 7      | 0   |
| Housing Local Delivery Vehicle                  | Reasonable      | 0                           | 5      | 0   |
| Leasehold Service Charges                       | Substantial     | 0                           | 3      | 0   |
| Music Service                                   | Substantial     | 0                           | 3      | 1   |
| Trading Standards                               | Substantial     | 0                           | 4      | 0   |
| ICON Cash Management Application                | Limited         | 1                           | 8      | 2   |
| Homelessness Accommodation                      | Limited         | 4                           | 8      | 0   |
| Insurance                                       | Reasonable      | 0                           | 5      | 1   |
| Brighton Centre Capital Works                   | Limited         | 4                           | 5      | 0   |

- 6.3 Management actions have been agreed in response to the recommendations made and we will continue working with management to introduce agreed control and general service improvements, in particular where audit reviews give limited assurance.
- 6.4 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.
- 6.5 There are currently five levels of audit assurance used by the Internal Audit Team 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 could 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 as to put the system objectives at risk.         |
| <b>NO</b>         | Control is significantly weak or non existent leaving the system open to high levels of risk from abuse, fraud and error. |

## 7. Advice and Support Corporate and Service Units

- 7.1 Demand from managers to provide professional, proactive advice and support continues to be high. This element of our work is seen as invaluable both corporately and at service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 7.2 Recent areas where advice has been provided include IT security, income control, human resource management, public health, major projects and welfare reform.

## 8. Counter Fraud Work

- 8.1 Since April 2012, 58 new cases of suspected irregularities have been identified or referred to Audit & Business Risk. Of these new cases, 38 related to potential housing fraud, principally illegal subletting.
- 8.2 Audit & Business Risk have continued to investigate data matches from the latest National Fraud Initiative (NFI) data which has so far identified overpayments/savings from fraud and error of £498k. As part of the NFI, arrangements are made to ensure compliance with the Data Protection Act in the sharing of data and ensuring data subjects are notified.

## 9. Implementation of Agreed Audit Actions (including Payroll)

- 9.1 When unacceptable risks are identified in audit reviews, recommendations are made and actions agreed in order to mitigate these through improvement of system controls.
- 9.2 Implementation reviews of agreed actions are usually carried out within six months of the issue of the final report.
- 9.3 Issues raised and the agreed management actions in respect of an audit of Payroll, have previously been reported to the Audit Committee. Concerns were expressed by Members over the level of outstanding actions to address the issues raised.

9.4 A further implementation review was therefore carried out in September on the agreed management actions. The situation has significantly improved from that reported in February 2012. Table 3 below shows the current assessed status for the implementation of agreed management actions in respect of the audit reviews carried out in 2010/11 and 2011/12.

**Table 3 – Implementation Status of Agreed Management Actions for Payroll Audit Review (2)**

| Implementation Status | 2010/11 | 2011/12 |
|-----------------------|---------|---------|
| Fully                 | 9       | 12      |
| Partially/In Progress | 4       | 2       |
| Not                   | 0       | 1       |

## 10. Performance of Internal Audit

10.1 To achieve planned coverage and deliver a high quality service there are well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also part of our business planning process and monitored regularly. Table 4 provides an overview of the performance of the Internal Audit team against the key targets set.

**Table 4: Performance against targets**

| Performance Indicators   | Target for Year | Actual to Date |
|--|-----------------|----------------|
| <b>Effectiveness</b>   |                 |                |
| % of recommendations agreed                                      | 97%             | 96%            |
| % implementation of agreed management actions                    | 85%             | 82%            |
| <b>Efficiency</b>  |                 |                |
| % of productive time   | 71%             | 72%            |
| % of draft reports issued within 10 days of fieldwork completion | 90%             | 91%            |
| % response by client to draft reports within 15 days             | 90%             | 88%            |
| % of issue of final reports within 10 days of agreement          | 95%             | 96%            |
| <b>Quality of Service</b>  |                 |                |
| % of customer satisfaction feedback in very good or good         | 90%             | 96%            |

## 11. FINANCIAL & OTHER IMPLICATIONS:

### 11.1 Financial Implications:

It is expected that the Internal Audit Plan for 2012/13 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, minimising financial risks and achieving value for money.

Finance Officer consulted: Anne Silley  
Head of Business Engagement

12<sup>th</sup> September 2012

## 11.2 Legal Implications:

Regulation 6 of The Accounts & 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. It is a legitimate part of the Audit & Standards Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon  
Lawyer

12<sup>th</sup> September 2012

## 11.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

## 11.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

## 11.5 Crime & Disorder Implications:

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

## 11.6 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.

## 11.7 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 2012/13
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011 [Extract]