

Subject:	Review of the Effectiveness of the System of Internal Audit
Date of Meeting:	25 June 2013
Report of:	Executive Director of Finance & Resources
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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 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 A professional, independent and objective Internal Audit service is one the key elements of good governance, as recognised throughout the public sector

2. RECOMMENDATIONS:

It is recommended that the Audit & Standards Committee:

- 2.1 Considers the findings of the review of the effectiveness of Internal Audit, in particular the conclusion that the Council operates an effective of Internal Audit Service.
- 2.2 To request an update on progress in implementing the actions arising from the effectiveness review, as part of Internal Audit Progress Report 2013/14 in September 2013.
- 2.3 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 The Accounts and Audit Regulations 2011 requires local authorities to undertake at least once in each year *“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 practices. The recently published Public Sector Internal Audit Standards together with the Local Government Application Notes have been cited by the Department of Communities & Local Government (DCLG) as meeting this purpose.
- 3.3 The Committee was updated in a report to its April meeting, on the new Public Sector Internal Audit Standards effective from 1st April 2013 in particular the implications and key changes from the previous Code of Practice for Internal Audit in Local Government .The Local Government Application Note was published by the Chartered Institute of Public Finance and accountancy in May 2013.

Defining the Effectiveness of system of Internal Audit

- 3.4 To be “effective” the Internal Audit shall aspire to:
- § Under the whole organisation, its needs and objectives;
 - § Be seen as a catalyst for improvement at the heart of the Council;
 - § Be forward looking, knowing where the Council wishes to be and aware of the national agenda and impact’
 - § Add value and assist the council in achieving its objectives;
 - § 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

Public Sector Internal Audit Standards

- 4.1 The Public Sector Internal Audit Standards requires an annual self assessment to be carried out and then every five years an external review. Conformance with professional standards and best practice is seen as the foundation for an effective Internal Audit service.
- 4.2 In order to reach an opinion on the extent to which the Internal Audit function is complying with the Public Sector Internal Audit Standards and Local Government Application Note, a self assessment questionnaire was used, comprising of 344 questions.
- 4.3 The self-assessment against the Standards comprised the following areas:

Definition of Internal Auditing

Code of Ethics

Attributable Standards

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

Performance Standards

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

5. OUTCOME AND ACTIONS

- 5.1 From the evidence of this review, it is considered that the Council's Internal Audit service continues to be effective.
- 5.2 A summary of the self-assessment against each of these areas is shown at Appendix 1 that includes an opinion on each area, comments on any partial or non conformance and actions required.

5.3 As a broad measure, of the 344 self assessment questions conformance was assessed at 94%. None of the questions not met, are considered to have a significant impact to the effectiveness of Internal Audit.

5.4 The following are the actions required resulting from the self- assessment:

To ensure full conformance with the Public Sector Internal Audit Standards and Local Government Application Notes:

- Although it will still not fully comply, improved information to be provided to the Audit & Standards Committee on financial resources for Internal Audit.
- All staff need to meet the required level of competency on Information governance, counter fraud and use of Computer Audit Assisted Techniques (CAATs) and Data Analytics and therefore some individuals have been identified who need to receive training by a suitable provider;
- The new requirement of a Quality Action Programme must be introduced;
- Develop a process for a five year external assessment of Internal Audit and agreement with the Audit & Standards Committee;
- There needs to be a clear process in relation to identifying and undertaking consultancy activities;
- Specific assurance on Information Technology Governance that supports the Council's strategies and objectives; and
- Introduce a procedure for undertaking consultancy.

Further improvements for the Internal Audit Service to meet best practice

- Review process of feedback from stakeholders and customers including liaison and satisfaction questionnaires;
- Promoting of the role and responsibilities of Internal Audit including its role in relation to improvement and value for money and brief factsheet/brochure to be provided and discussed at audit review entry meetings; and
- Updating of the Internal Audit Manual which provides technical guidance to staff on conducting audit work and refresher training provided.

5.5 The Head of Audit & Business Risk will be responsible for ensuring the implementation of the actions to achieve full conformance to the PSIA's and LGAN for improvement and provide an update on progress as necessary, part of normal progress.

Outcome of Benchmarking of Internal Audit

- 5.6 The Council participates in an annual benchmarking exercise organised by provided by CIPFA, to make comparison with other internal audit functions provided by similar local authorities..
- 5.7 It is not a requirement of either the PSIAS or LGAN to participate in this type of exercise but useful to further demonstrating effectiveness and value of the service.
- 5.8 The results from the 2011/12 benchmarking exercise have currently not been released by CIPFA but are likely to be available by the date of the Committee Meeting and if so a verbal update will be provided.
- 5.9 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 similar local authorities.

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 for 2013/14.

Finance Officer Consulted: James Hengeveld

11/06/13

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.

Lawyer
13/06/13

consulted:

Oliver

Dixon

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:

An effective Internal Audit service is essential in providing independent assurance over the management of risks.

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. Conformance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment

Background Documents

1. Accounts & Audit Regulations 2011 (Amended)
2. Public Sector Internal Audit Standards (2013)
3. Local Government Application Note (2013)
4. Internal Audit Strategy and Annual Audit Plan
5. Internal Audit Charter

Conformance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment Summary

Standards	Assessed Conformance				Opinion	Actions
	Yes	No	Part	N/A		
Definition of Internal Audit	3	0	0	0	Full Conformance	
Code of Ethics	13	0	0	0	Full Conformance	
Attribute Standards						
Purpose, Authority and Responsibility	23	0	0	0	Full Conformance	
Independence and Objectivity	34	2	0	1	<p>Partial Conformance</p> <p>Non conformance relates to the Audit & Standards Committee approving the Internal Audit Budget, the resourcing levels are determined by the Chief Finance Officer and Full Council has responsibility for the overall Council budget.</p>	<p>Although will not comply in full, improved information to be provided to the Audit & Standards Committee on financial resources.</p>

Standards	Assessed Conformance				Opinion	Actions
	Yes	No	Part	N/A		
					The responsibility for appointing and removing the Head of Audit & Business Risk will remain with the Chief Finance Officer but in consultation with the Chair of the Audit & Standards Committee and Chief Executive, in line with other council appointment processes.	
Proficiency and Due Professional Care	18	0	3	0	<p>Partial Conformance</p> <p>Part relates to a few staff assessed as not fully proficient in ICT governance, counter fraud, and CAATS/Data Analytic skills.</p>	All staff need to meet the required level of competency on Information governance, counter fraud and use of CAATs and Data Analytics and therefore some individuals have been identified who need to receive training by a suitable provider.
Quality assurance and improvement programme	20	3	5	0	<p>Partial Conformance</p> <p>Non conformance (3) relates to new requirement to have a Quality Improvement Programme (QAP). Further details are being provided on the requirements.</p> <p>Partial conformances (5) relate to the five year external assessment, its development,</p>	<p>The new requirement of a Quality Action Programme must be introduced.</p> <p>Develop a process for a five year external assessment of Internal Audit and agreement with</p>

Standards	Assessed Conformance				Opinion	Actions
	Yes	No	Part	N/A		
					undertaking and monitoring.	the Audit & Standards Committee.
Performance Standards						
Managing the internal audit activity	46	0	0	1	Full Conformance N/A refers to the External Auditor as also as Internal Audit.	
Nature of work	30	0	1	0	Partial Conformance Although currently part of the general annual opinion on governance, risk management and internal control. New requirement for specific assurance on the or the organisations information technology governance that supports the organisations strategies and objectives	Specific assurance on Information Technology Governance that supports the Council's strategies and objectives
Engagement planning	54	0	0	5	Partial Conformance Partial conformances (5) relate to consultancy services provided. In general not a part of the internal audit activity although has been carried out and potential for increasing in the future.	Introduce a procedure for undertaking consultancy

Standards	Assessed Conformance				Opinion	Actions
	Yes	No	Part	N/A		
Performing the engagement	23	0	0	0	Full Conformance	
Communicating results	53	0	0	0	Full Conformance	
Monitoring progress	4	0	0	0	Full Conformance	
Communicating the acceptance of risks	2	0	0	0	Full Conformance	
	324	5	8	7		

