AUDIT & STANDARDS COMMITTEE Agenda Item 10

Brighton & Hove City Council

Subject:	Review of the Effectiveness of the System of Internal Audit				
Date of Meeting:	23 June 2015				
Report of:	Graham Liddell, Head of Internal Audit				
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Ward(s) affected:	All				

FOR GENERAL RELEASE

1. PURPOSE OF REPORT 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 should be considered by the Audit & Standards Committee.
- 1.2 This report details the results of a self-assessment of the system of Internal Audit against the UK Public Sector Internal Audit Standards by the Head of Internal Audit.
- 1.3 The process should also be considered as part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement.

2. **RECOMMENDATIONS**:

- 2.1 That the Committee considers the Head of Internal Audit's self-assessment including the proposal to accept the council's current arrangements for the two areas of partial compliance (see paragraph 6 below and appendix 1).
- 2.2 That the Committee considers the implications for the Annual Governance Statement.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 All local authorities have a statutory requirement to make provision for internal audit in accordance with proper practices (essentially Public Sector Internal Audit Standards). The Accounts and Audit Regulations 2011 require local authorities to undertake an annual review of the effectiveness of its internal audit and have the findings considered by a committee. This can be a self-assessment, provided that an external review is carried out at least every five years. For Brighton & Hove an external review is required by 2018/19.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 For 2014/15 the annual review of effectiveness review has been carried out by the Head of Internal Audit. The review was based on a CIPFA checklist of 334 questions designed to assess compliance with Public Sector Internal Audit Standards. It was also informed by the summary of internal audit performance set out in the 2014/15 Internal Audit Annual Report and Opinion.
- 4.2 The Head of Audit considered commissioning an external review for 2014/15 but concluded that a self-assessment was more appropriate. This is because the internal audit has been subject to a period of change and is currently exploring the possibility of working more closely with other local authorities as part of the council's support functions review. As a result, an external assessment would be likely to become quickly out of date and not provide value for money. The Head of Internal Audit considers that an external review should be carried out in 2015/16 or 2016/17. The precise timing will be made in consultation with the Executive Director of Finance and Resources, other senior managers and members of the Audit & Standards Committee.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 This review has been carried out by the incoming Head of Internal Audit with the support of the Audit Manager (previously acting Head of Audit) and informed by discussions with officers and members.

6. CONCLUSION

- 6.1 The Authority's Internal Audit Function complies with International Public Sector Internal Audit Standards (see appendix 1).
- 6.2 There are two areas where compliance is partial.
 - Members of the Audit & Standards Committee are consulted as part of the decision to appoint the Head of Audit but the appointment and removal of the Head of Internal Audit is made by the Executive Director of Finance and Resources. This is an appropriate process and is in line with other council appointment procedures and there are no plans to change this process.
 - The Audit & Standards Committee directs the use of resources through the approval of the audit plan but the full Council approves the budget of the service. This is an appropriate process and there are no plans to change these arrangements.

- 6.3 Regardless of the level of compliance with internal auditing standards, the internal audit service needs to continue to develop. During 2015/16 we will work with other local authority internal audit services to identify areas for improvement. The Annual Internal Audit and Opinion identifies three priorities:
 - delivering a greater proportion of audits within budget
 - issuing draft reports more quickly after completion of fieldwork and final reports after receiving responses
 - improving further the implementation of high priority and medium priority recommendations.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The areas for service development within this review can be managed within the budget of the Internal Audit service for 2015/16.

Finance Officer Consulted: James Hengeveld

Date: 01/06/15

Legal Implications:

7.2 The statutory provision referred to in paragraph 3.1 above is regulation 4(2) of the Accounts and Audit Regulations 2011. These regulations also require the findings of the effectiveness review to be considered by full Council or a council committee. In the case of Brighton & Hove, the Audit & Standards Committee is the designated committee for this purpose. Following the review, the Committee must approve an annual governance statement prepared in accordance with proper practices in relation to internal control.

Lawyer Consulted: Elizabeth Culbert

Date: 090615

Equalities Implications:

7.3 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 recognise the Council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

Sustainability Implications:

7.4 When carrying out audit work, any equality issues identified are reported to the appropriate level of management.

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

Standards	Assessed Compliance				Opinion	Actions
	Yes	No	Part	N/A		
1) Definition of Internal Audit	3	0	0	0	Complies	
2) Code of Ethics	12	0	0	0	Complies	
3) Attribute Standards						
3.1) Purpose, Authority and Responsibility	23	0	0	0	Complies	
3.2) Independence and Objectivity	32	0	2	0	Partial Compliance The responsibility for appointing and removing the Head of Internal Audit remains with Executive Director of Finance and Resources but in consultation with the Chair of the Audit & Standards Committee and Chief Executive. This is in line with other Authority appointment processes. Budget approval for the service lies with the Full Council.	No further action.
3.3) Proficiency and Due Professional Care	21	0	0	0	Complies	
3.4) Quality assurance and improvement programme	21	0	0	11	All of the issues identified as not being applicable relate to the five year external assessment, its development, undertaking and monitoring.	Five year external assessment to be considered for 2015/16 or 2016/17
4)Performance Standards						
4.1) Managing the internal audit activity	46	0	0	0	Complies	
4.2) Nature of work	31	0	0	0	Complies	

4.3) Engagement planning	49	0	0	0	Complies	
4.4) Performing the engagement	22	0	0	0	Complies	
4.5) Communicating results	55	0	0	0	Complies	
4.6) Monitoring progress	4	0	0	0	Complies	
4.7) Communicating the acceptance of risks	2	0	0	0	Complies	
Totals	321	0	2	11		