

# AUDIT COMMITTEE

## Agenda Item 32 REVISED

Brighton & Hove City Council

**Subject:** Audit & Business Risk Progress Report  
**Date of Meeting:** 29<sup>th</sup> September 2009  
**Report of:** Director of Finance & Resources  
**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 contains the outcome of internal audit work for the 2009/10 financial year, completed from April to early September 2009. The report further shows the position regarding the delivery of the Internal Audit Plan for 2009/10.
- 1.2 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 1.3 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.
- 1.4 It has been agreed that a report will be provided to the December meeting on the status of agreed management actions arising from finalised audit reports issued in 2008/09 and 2009/10.

#### 2. RECOMMENDATIONS:

- 2.1 That the Audit Committee notes the contents of this report, in particular the status of planned internal audit work for 2009/10.

#### 3. BACKGROUND INFORMATION:

- 3.1 The audits contained in the Internal Audit Plan 2009/10 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.

- 3.2 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.
- 3.3 The Annual Internal Audit Plan is sufficiently flexible to meet the changing needs and emerging risks of the Council. This is reflected in the level of contingency made for unplanned audit work.

#### 4. Progress against the Internal Audit Plan 2009/10

- 4.1 The progress against the Internal Audit Plan for 2009/10 is summarised in Table 1 below.

**Table 1: Summary of progress against Internal Audit Plan 2009/10**

<b>Audit Stage</b>	<b>Explanation</b>	<b>No.</b>	<b>%</b>
Not Started	Planned but not started	57	55%
Planning	Planning of audit reviews including agreement of terms of reference with client	6	6%
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	21	21%
Draft Report	Draft audit report issued and being agreed with client	10	10%
Final Report	Final agreed audit issued and audit complete	8	8%

- 4.2 There has been an impact on the achievement of the Internal Audit Plan so far this year due to staff vacancies within the team. This also resulted in a larger than normal amount of residual work from 2008/09, completed in quarter 1 which has also impacted.
- 4.3 We are currently in the recruitment process for one Audit Manager and two Internal Auditors. In addition we are in the process of recruiting temporary staff to backfill.
- 4.4 The level of advisory work has been higher than expected due principally to our quality assurance role in the Single Status Project. This work is considered to be important and well received in providing assurance.
- 4.5 The achievement of the Annual Internal Audit Plan is based on the issue of final reports i.e. audits completed. The target for the year is 95% and we are still confident in achieving this.

#### 5. Final Audit Reports Issued

- 5.1 During the period, eight audit reviews have been completed to final report stage. 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.

One of these, Bereavement Services gave limited assurance with a high number of audit recommendations (43 medium priority) and we have worked closely with management to address the issues raised.

- 5.2 The eight final audit reports issued are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level.

**Table 2: Final Reports Issued**

Audit	Report Status	Assurance Level	Agreed Actions and Priority		
			High	Medium	Low
Annual Governance Statement 2008/09	Final	–	–	–	–
Premises Security	Final	Reasonable	0	6	0
Housing Local Delivery Vehicle – Project Management	Final	Substantial	0	5	0
Highways Minor Works	Final	Reasonable	0	5	0
HR/Payroll System Implementation – Project Management	Final	Substantial	0	0	0
Bereavement Services	Final	Limited	0	43	0
Housing Allocations	Final	Substantial	0	4	0
Decent Homes – Data Quality	Final	Reasonable	0	3	1

- 5.3 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks, for each audit is a best practice requirement. Members should also 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 recommendations made.

- 5.4 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 to Directorates

6.1 We have continued to be pragmatic in providing professional proactive advice and this element of our work is seen as invaluable by directorates, particularly in areas of change management. By taking this proactive approach, often problems and risks can be avoided. In addition to the single status work (see para. 4.4.), specific areas include recruitment, contract management, financial management, information security, intranet, codes of conduct and single status.

## 7. Performance of Audit & Business Risk

7.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Internal Audit Plan. Table 3 provides members with 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 agreed recommendations	98%	97%
% implementation of agreed management actions	85%	88%
<b>CPA/CAA Use of Resources Score for Internal Control</b>	Level 4	N/A
<b>Efficiency</b>		
% of planned days delivered	100%	34%
% of productive time	71%	76%
Achievement of Annual Internal Audit Plan	95%	9%
% of draft reports issued within 10 days of fieldwork completion	90%	98%
% response by client to draft reports within 15 days	90%	86%
% of issue of final reports within 10 days of agreement	95%	91%
<b>Quality of Service</b>		
% of customer satisfaction feedback in very good or good	90%	95%

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

### **8.1 Financial Implications:**

The Internal Audit Plan for 2009/10 will be delivered within existing budgetary resources. Any reduction in internal audit work would have a negative impact on for example financial probity and value for money. This in turn would have a negative impact on the council's finances through increased financial risk.

*Finance Officer Consulted: Patrick Rice*

*Date: 16<sup>th</sup> September 2009*

*Head of Financial Services – Corporate & Environment*

### **8.2 Legal Implications:**

Regulation 6 of The Accounts & Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006) 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.

*Laywer Consulted: Oliver Dixon*

*Date: 16<sup>th</sup> September 2009*

### **8.3 Equalities Implications:**

There are no direct equalities implications arising directly from this report

### **8.4 Sustainability Implications:**

There are no direct sustainability implications arising from this report.

### **8.5 Crime & Disorder Implications:**

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

### **8.6 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.

### **8.7 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 2009/10
2. Code of Practice for Internal Audit in Local Government (CIPFA) 2006
3. Accounts & Audit Regulations 2003 (Amended 2006)