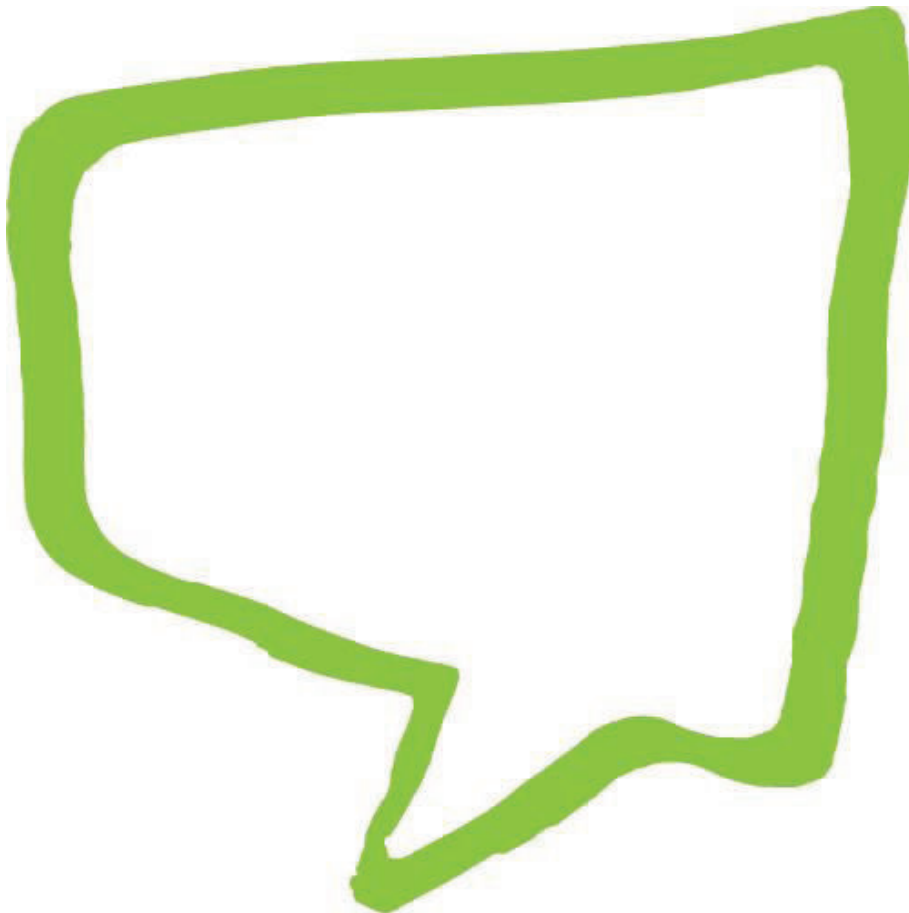


Review of Internal Audit

Brighton and Hove City Council

Audit 2008/09

October 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction and background

- 1 Being able to place reliance on the work of Internal Audit is a key theme in our audit approach and in order to do this, we have to carry out a full review of Internal Audit every three years. The last review was completed in 2006 and this one was undertaken between February and August 2009.
- 2 International Standard on Auditing (ISA) 610 (Considering the work of Internal Audit) requires us to perform an assessment of Internal Audit when internal auditing is relevant to the external auditor's risk assessment and we undertake a higher level review annually. Both the three year and annual reviews are considered as part of our assessment of the Council's control framework and risk assessment.
- 3 The Internal Audit function is provided mainly in-house by the Council's Audit & Business Risk Division with some discrete areas delivered in partnership with an external provider, Deloitte.

Audit approach

- 4 The review was based on the Chartered Institute of Public Finance and Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom (the CIPFA Code) and ISA+610.
- 5 Our objective was to establish that the Council's Internal Audit function is structured and operating in accordance with the CIPFA Code and the ISA. To this end we reviewed the Internal Audit function against the eleven standards of the CIPFA Code.
 - Scope of Internal Audit.
 - Independence.
 - Ethics for Internal Auditors.
 - Audit Committees.
 - Relationships.
 - Staffing, Training and Continuing Professional Development.
 - Audit Strategy and Planning.
 - Undertaking Audit Work.
 - Due Professional Care.
 - Reporting.
 - Performance, Quality and Effectiveness.
- 6 In considering the compliance to the CIPFA Code, we considered the following.
 - The detailed self assessment responses given by the Head of Audit & Business Risk.
 - The evidence presented by the Head of Audit & Business Risk in support of the self assessment.
 - Our knowledge and experience from working with Internal Audit since our last triennial review.
 - Detailed reviews of two pieces of work undertaken by Internal Audit including one where Internal Audit externally contracted with Deloitte for part of the work.
 - Use of Resources assessment work.
 - Internal Audit's review of the Annual Governance Statement.
 - The Council's internal review of the effectiveness of Internal Audit.

Main conclusions

7 Our key conclusions are as follows.

- Our overall conclusion is that Internal Audit provides an effective service. It has a positive reputation and standing within the Council which allows it to contribute fully to the corporate governance framework.
- Internal Audit has achieved compliance with the CIPFA Code.
- The work of Internal Audit is properly planned, supervised, reviewed and reported, and our review of specific projects indicates that a good standard is reached. Progress against the audit plan and annual targets is regularly reported to the Audit Committee. Internal Audit is instrumental in aiding the Council to achieve its objectives in terms of governance and particularly in embedding the anti-fraud culture.
- Internal Audit staff have appropriate skills and training to undertake their roles effectively. The function has a strong profile within the Council and a high degree of independence. It is reasonably resourced, using contractors where necessary, and each team member has an Individual Learning and Development Plan which is regularly updated. Staff are aware of their ethical responsibilities and act with due professional care.
- We are able to place reliance on the work of Internal Audit in conducting our own audits subject to sample review annually which is required by the international Standards on audit.

8 Internal Audit's relationship with the Audit Commission is well-established as it is with other Internal Audit teams in Sussex and partner bodies. There is engagement with bodies such as Department of Children, Families and Schools relating to Financial Management Standard in Schools and Government Office for the South East regarding grants. We did not clearly identify engagement with the Council's other external regulators/inspectors and whilst this does not diminish the effectiveness of Internal Audit it could be an area for development.

9 The detailed findings for each of the eleven headings are set out in Appendix 1. There are no recommendations made in this report.

Appendix 1 – Detailed conclusions

CIPFA Code Standards	Findings
Scope	The purpose, authority and responsibility of Internal Audit are formally defined in terms of reference which are consistent with the CIPFA Code. The scope of the function's remit includes the Council's entire control environment and includes fraud work.
Independence	Internal Audit is independent of the activities that it audits. The status of the function is sufficient for it to be effective. There are procedures in place to facilitate Internal Auditors to have an impartial and unbiased attitude.
Ethics	The Head of Audit & Business Risk ensures that auditors are regularly reminded of their ethical responsibilities. All members of the function are professionally qualified or are in training which helps ensure their awareness of the need for integrity, objectivity and confidentiality is maintained.
Audit Committees	The Audit Committee approves Internal Audit's strategy and annual plan, and monitors them. The Head of Audit & Business Risk regularly interacts with the Chair and other members of the Committee.
Relationships	<p>The Head of Audit & Business Risk manages relationships which includes the nature, responsibilities and expectations of the relationship.</p> <p>Effective relationships are maintained with managers, other organisations internal auditors, external auditors and elected members.</p> <p>There are no clear relationships with other regulators and inspectors. While at present this does not diminish the effectiveness of Internal Audit it may do so in the future.</p>

Appendix 1 – Detailed conclusions

CIPFA Code Standards	Findings
Staffing, Training and Continuing Professional Development	Internal Audit is appropriately resourced to meet its objectives and the Head of Audit & Business Risk is professionally qualified with a good level of experience. Each staff member has an Individual Learning and Development Plan.
Audit Strategy and Planning	The Head of Audit & Business Risk prepares an annual strategy and plan which is developed in accordance with the function's terms of reference and links to the Council's objectives and priorities. The plan is produced to reflect the resources available and is approved by the Audit Committee.
Undertaking Audit Work	For each audit, a brief is prepared, discussed and agreed with relevant auditees. The work is undertaken using a risk-based approach and the findings are discussed with auditees as the audit progresses. Internal Audit has its own documents retention policy distinct from the Council's reflecting Internal Audit's possession of personal information and their handling of freedom of information requests.
Due Professional Care	Our review of Internal Audit work shows that individual auditors use appropriate audit skills and maintain confidentiality.
Reporting	Internal Audit reports communicate audit findings clearly to the auditees and conclude objectively on the area being reviewed. Higher priority recommendations to management are followed up within six months.
Performance, Quality and Effectiveness	In addition to the audit software which largely defines the audit process, Internal Audit has its own Audit Manual and a Fraud Investigation Manual (both being revised). The Head of Audit & Business Risk ensures that staff are appropriately supervised and work is reviewed to monitor progress, assess quality and coach staff. The performance management and quality assurance framework helps ensure that Internal Audit meets its aims and objectives, is compliant with the CIPFA Code, adds value and assists the Council in achieving its objectives. Occasionally there have been delays in Internal Audit's response to specific requests for information to support the Audit Commission's external audit responsibilities.

The Audit Commission

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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