

# AUDIT COMMITTEE

## Agenda Item 12

Brighton & Hove City Council

**Subject:** Review of the Effectiveness of Internal Audit 2010-11  
**Date of Meeting:** 28<sup>th</sup> June 2011  
**Report of:** Director of Finance  
**Contact Officer:** Name: **Ian Withers** Tel: **29-1323**  
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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 Committee) of that body.
- 1.2 This is the third year the Audit Committee has been presented with a review of the effectiveness of Internal Audit. 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 An effective Internal Audit service is a key part of the council's governance arrangements and for adding value to its services.

#### 2. RECOMMENDATIONS:

It is recommended that the Audit Committee:

- 2.1 Considers the findings of the review of the effectiveness of the system of internal audit for 2010/11 and notes actions arising for minor improvement.
- 2.2 Notes the conclusion of the review that based upon the results, the council's Internal Audit is considered to be operating in accordance with accepted professional practice and remains effective and that the council can therefore continue to place reliance on its Internal Audit arrangements for the purpose of the Annual Governance Statement.

### **3. BACKGROUND**

#### **Legislative Requirements**

- 3.1 Regulation 6 of the Accounts and 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. Further it must at least once in each year, conduct 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 standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government (2006).
- 3.3 This is the third year that the Audit Committee has been presented with a back ward looking review of the effectiveness of internal audit.

#### **Defining the effectiveness of Internal Audit**

- 3.4 To be “effective” the Internal Audit shall aspire to:
- 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

### **Code of Practice for Internal Audit in Local Government**

- 4.1 As the 'Code of Practice for Internal Audit in Local Government' (CIPFA) 2006 (the Code) is considered proper practice for Internal Audit under the Accounts and Audit Regulations 2011, Internal Audit was assessed against the checklist contained within the Code. The Code comprises eleven standards (or principles), thirty seven related areas and one hundred and six specific questions to form the basis of assessment.
- 4.2 The Standards comprise the following areas:
- 1) Scope of Internal Audit (Terms of Reference)
  - 2) Independence
  - 3) Ethics of Internal Auditors
  - 4) Audit Committee (including Internal Audit's relationship with the Audit Committee)
  - 5) Relationships (with management, elected Members and other auditors)
  - 6) Staffing, Training and Continuing Professional Development
  - 7) Audit Strategy and Planning
  - 8) Undertaking Audit Work
  - 9) Due Professional Care
  - 10) Reporting
  - 11) Performance, Quality and Effectiveness
- 4.3 Further details of the areas under each standard and a summary of compliance against the CIPFA Code of Practice Checklist is shown at Appendix 1.

### **Benchmarking of Internal Audit**

- 4.4 The council is a member of the CIPFA Benchmarking Club for which data is submitted to provide comparisons with other unitary councils. Data from the report provided was used to provide further evidence to support the effectiveness review.

### **Statement on the Role of the Head of Internal Audit**

- 4.5 In December 2010, CIPFA published a 'Statement on the Role of the Head of Internal Audit in public sector organisations'. The Statement sets out best practice for Heads of Internal Audit to aspire to measure against. The Statement sets out five principles that define the core activities and behaviours of the Head of Internal Audit. In addition the Statement sets out the governance arrangements required within an organisation to ensure that Head of Internal Audit are able to operate effectively.
- 4.6 A detailed review against the Statement was carried out to identify issues of non compliance.

## **Independent Review**

4.7 Professional guidance to undertaking the effectiveness review suggests there are a number of options available for carrying out by local authorities, including:

- The Head of Internal Audit
- A sub-group of the audit committee
- A review group of officers
- Peer review
- External assessment, or
- A group of members and officers

4.8 The 2010/11 review was carried out by the Head of Audit & Business Risk with an independent peer review carried out by the Assistant Director Audit for the London Borough of Bromley.

## **5. FINDINGS OF REVIEW**

### **Code of Practice for Internal Audit in Local Government**

5.1 Compliance against the criteria (106) contained in the CIPFA Code of Practice is considered to be as follows:

- Full Compliance 101 (95%)
- Partial Compliance 4 (4%)
- No Compliance 0 (0%)
- Not applicable 1 (1%)

5.2 The not applicable criteria item relates to a paper based audit documentation system, whereas the council's Internal Audit documentation process fully electronic.

5.3 Those criteria assessed as partial are minor in nature and not considered to impact on the effectiveness of Internal Audit. Actions that will be taken during 2011/12 to address partial compliance are:

- Finalise protocol with external audit;
- Updating of the Audit Manual; and
- Formalise restriction of Internal Audit staff from auditing systems where they have been involved in providing consultancy on its development.

5.4 The fourth partial compliance relates to the Head of Audit & Business Risk to report in his or her own name. The only exception to this is in respect of committee

reports for Internal Audit, which in accordance with the council's protocol, are in the name of the Director of Finance. The Head of Audit & Business Risk is however the author of the committee reports and has a high degree of autonomy as to their contents. There is therefore no action required to address this partial non compliance.

- 5.5 The Head of Audit & Business Risk will be responsible for ensuring the implementation of the action to achieve full compliance with the Code and actions for improvement.

### **Benchmarking of Internal Audit**

- 5.6 Results from the 2010/11 benchmarking exercise showed the council's Internal Audit to be in the upper quartile in terms of performance and efficiency and lower quartile in terms of service costs when compared with other unitary councils. No actions are required.

### **Statement on the Role of the Head of Internal Audit**

- 5.7 The assessment against the criteria contained in the Statement identified no significant non compliance issues but the following are actions to be taken:
- A mechanism, to ensure that the Head of Audit & Business Risk is consulted on all proposed major projects, programmes and policy initiatives;
  - Formal agreement of the Internal Audit Strategy & Annual Plan by the Corporate Management Team in addition to current agreement on an individual basis of service coverage;
  - The Head of Audit & Business Risk's responsibilities relating to partnerships to be formally documented

### **Independent Review**

- 5.8 The peer review carried out by the Assistant Director Audit for the London Borough of Bromley confirmed the results of the assessment carried out by the Head of Audit & Business Risk.

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

### **6.1 Financial Implications:**

All improvements identified within this review will be funded from within the existing budget of Audit & Business Risk of £590k for 2011/12.

Anne Silley  
Business Engagement Manager, Financial Services

15<sup>th</sup> June 2011

## 6.2 Legal Implications:

The Audit 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.

Oliver Dixon  
Lawyer

16<sup>th</sup> June 2011

## 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:

The preparation of the Internal Audit Strategy and annual Audit Plan has taken into account the adequacy, outcomes of the council's risk management and other assurance processes. The work of Internal Audit assists the council in improving controls to mitigate risks. The Annual Audit Plan will be flexible to take account of emerging risks and priorities of the council.

## 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. Compliance with the CIPFA Code of Practice Checklist Summary

### **Background Documents**

1. Accounts & Audit Regulations 2011 (Amended)

2. CIPFA Code of Practice for Internal Audit in Local Government 2006 and checklist.
3. Internal Audit Strategy and Annual Audit Plan 2010/11
4. Internal Audit Terms of Reference for the Council

## Compliance with the CIPFA Code of Practice for Internal Audit Checklist Summary

CIPFA Standard	Areas	Total No. criteria for standard	No. of FULLY MET criteria	No. of PARTIALLY MET criteria	No of NOT MET criteria	No. of N/A criteria
Scope of Internal Audit	Terms of Reference Scope of Work Other Work Fraud & Corruption	9	9	0	0	0
Independence	Principles of Independence Organisational Independence Status of Head of Internal Audit Independence of Internal Audit Contractors Declarations of Interest	10	9	1	0	0
Ethics for Internal Auditors	Purpose Integrity Objectivity Competence Confidentiality	6	6	0	0	0
Audit Committees	Purpose of the Audit Committee Internal Audit's relationship with the Audit Committee	6	6	0	0	0



CIPFA Standard	Areas	Total No. criteria for standard	No. of FULLY MET criteria	No. of PARTIALLY MET criteria	No of NOT MET criteria	No. of N/A criteria
Relationships	Principles of Good Relationships Relationships with Management Relationships with Other Internal Auditors Relationships with External Auditors Relationships with Other Regulators and Inspectors Relationships with Elected Members	8	7	1	0	0
Staffing, Training and Continuing Professional Development	Staffing Internal Audit Training and Continuing Professional Development	7	7	0	0	0
Audit Strategy and Planning	Audit Strategy Audit Planning	11	11	0	0	0
Undertaking Audit Work	Planning Approach Recording Audit Assignments	11	10	0	0	1
Due Professional Care	Responsibilities of the Individual Auditor Responsibilities of the Head of Internal Audit	3	3	0	0	0

<b>CIPFA Standard</b>	<b>Areas</b>	<b>Total No. criteria for standard</b>	<b>No. of FULLY MET criteria</b>	<b>No. of PARTIALLY MET criteria</b>	<b>No of NOT MET criteria</b>	<b>No. of N/A criteria</b>
Reporting	Principles of Reporting Reporting of Audit Work Follow-up Audits and Reporting Annual Reporting and Presentation of Audit Opinion	16	15	1	0	0
Performance, Quality and Effectiveness	Principles of Performance, Quality and Effectiveness Performance and Effectiveness of the Internal Audit Service	19	18	1	0	0
<b>Totals</b>		<b>106</b>	<b>101</b>	<b>4</b>	<b>0</b>	<b>1</b>