

Subject: Internal Audit Progress Report 2011/12
Date of Meeting: 21st February 2012
Report of: Director of Finance
Contact Officer: Name: Ian Withers, Head of Audit & Tel: 29-1323
Business Risk
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Wards Affected: All

FOR GENERAL RELEASE**1. Summary and Policy Context**

- 1.1 This report summarises the progress made against the Internal Audit Plan 2011/12, including outcomes of specific audit reviews completed, agreed management actions and Internal Audit Key Performance Indicators.
- 1.2 The Audit Committee has a role in monitoring the activity and outcomes of internal audit work against the plan and receiving regular progress reports. Also to monitor the implementation of agreed actions to internal audit recommendations for improvement to controls and operations.
- 1.3 Good progress continues to be made in the delivery of the Internal Audit Plan 2011/12, due by the end of March 2012.

2. Recommendations

- 2.1 That members note the progress made in delivering the Annual Internal Audit Plan 2011/12, outcomes achieved and current arrangements going forward to 31st March 2012.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 3.2 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.

- 3.3 The Internal Audit Plan 2011/12 detailing the programme of audit reviews was approved by the Audit Committee at its meeting in April 2011.
- 3.4 The programme of audit reviews contained in the Internal Audit Plan 2011/12 is 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.
- 3.4 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 Head of Service, Lead Commissioner or Strategic Director.

4. Progress against the Internal Audit Plan 2011/12

- 4.1 During the period 1st April to 8rd February 2012, the Internal Audit Team has commenced or completed thirty six audit reviews, an increase of thirteen audit reviews from that reported in the progress report submitted to the Audit Committee on 20th December 2011. Table 1 below provides a summary of the progress made with delivering the Internal Audit Plan 2011/12.

Table 1: Internal Audit Plan 2011/12 Progress (Audit Reviews)

Audit Status	Explanation	No.
Not Started	Planned but not started	9
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	26
Draft Report	Draft audit report issued and being agreed with client	24
Final Report	Audits completed and final report issued	36
		95

- 4.2 In addition to the above, there has been unplanned audit work since April responding to emerging control and risk issues.
- 4.3 There are currently two staff vacancies within the Internal Audit Team of Principal Auditor and Auditor. These are however being considered as part of service review and restructure, to ensure it effectively continues to meet the needs of the council. This is currently at consultation stage and due for implementation at the beginning of April 2012.
- 4.4 We are confident in completing the Annual Internal Audit Plan for 2011/12 through re-profiling and if required outsourcing a number of audit reviews to Deloitte under contract arrangements.

5. Audit Reviews Completed

- 5.1 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.
- 5.2 During the relatively short period since the last progress report in December 2011, a further thirteen audit reviews have been completed and final reports issued. These are shown in table 2 below which includes the overall level of assurance, number and classification of agreed management actions to audit recommendations made.

Table 2: Summary of Completed Audit Reviews (Final Reports)

Audit	Assurance Level	Agreed Actions and Priority		
		High	Medium	Low
Staff Expenses	Reasonable	0	10	0
Personal Budgets & Direct Payments	Reasonable	1	6	1
Petty Cash and Imprest Accounts	Limited	3	6	0
Employee Vetting and Recruitment	Reasonable	0	6	0
Seafront Services	Substantial	0	1	1
Housing Revenue Account Self Funding	Substantial	0	2	0
Blue Badges	Limited	2	1	5
Treasury Management	Substantial	0	1	0
Concessionary Fares Scheme	Substantial	0	0	0
Civica Authority Financials Application	Reasonable	0	6	0
Integrated Waste Management Contract	Substantial	0	1	0
Surveillance (Regulation of Investigatory Powers Act 2000 Compliance)	Reasonable	0	9	1
St. Martin's CE Primary School	Substantial	0	6	8

- 5.3 Management actions have been agreed to the recommendations made and we will continue working with management to introduce agreed control and general service improvements, in particular where audit reviews give limited assurance.

- 5.4 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks for each audit is a professional practice requirement. Members should 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 audit recommendations made.
- 5.5 There are currently five levels of audit assurance used by the Internal Audit Team and these are summarised as follows:

FULL	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
SUBSTANTIAL	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
REASONABLE	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
LIMITED	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
NO	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 Corporate and Service Units

- 6.1 Demand from managers continues to be high for us to provide professional proactive advice and support. This element of our work is seen as invaluable both corporately and service level, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 6.2 Recent areas of advice provided includes IT security (COCO), data protection, income control, parking income, BACS payments in schools, council tax and procurement.

7. Counter Fraud Work

- 7.1 Since April 2011, 154 new cases of suspected irregularities have been identified by or referred to the Internal Audit Team for investigation. This is a significant increase on the same period for the previous year as Managers are becoming more aware as to what cases should be reported and the council's policy of zero tolerance to fraud. It is also in line with the national trend for an increase in fraud due to economic factors.
- 7.2 Of the 154 new cases, 78 related to housing fraud and the illegal subletting of council housing. The increase is however in line with the national increase in fraud against local authorities.

- 7.3 The council continues to carry out a substantial amount of proactive work to publicise and raise the issue of housing tenancy fraud and has or in the process of recovering a number of properties. We are continuing with a major pro-active exercise on housing tenancy fraud. This includes the involvement of National Anti Fraud Network (NAFN) and Experian for providing intelligence information for the detection of fraudulent tenancies. It is also a pathfinder project of the National Fraud Authority (NFA).
- 7.4 We have continued to investigate data matches from the latest National Fraud Initiatives (NFI) exercise has so far identified savings from error, overpayments and fraud of £417k.
- 7.5 The National Fraud Authority (NFA) is in the process of launching a local government strategy, "Fiighting Fraud Locally (FFL)". The strategy estimates the cost of fraud and error to local government at £2.1 billion a year or £100 for every household.
- 7.6 The FFL Strategy is based around the principles of Acknowledge, Prevent and Pursue and is expected to have a significant impact on counter fraud work by local authorities. The Head of Audit & Business Risk advised on its development as part of an Expert Advisory Group and is now assisting the Strategy Delivery Board. The FFL Strategy is however still waiting for ministerial approval before it can be released and this is expected later in February. A report will be made to the Audit Committee for members to consider the issues and implications once available.

8. Implementation of Agreed Management Actions

- 8.1 When unacceptable risks are identified in audit reviews, recommendations are made and agreed management actions to mitigate these through improvement of system controls.
- 8.2 Implementation reviews for agreed management actions to audit recommendation made, are usually carried out within six months of the issue of the final report.
- 8.3 Since April 2011, 13 implementation reviews have been carried out on agreed management actions (66) from previous completed audit reviews. The level of implementation of agreed management actions is 74% fully, 21% partial/in progress and 5% not implemented yet. Of these all 95% of high priority actions have been implemented, the remaining 5% partial/in progress.
- 8.4 We continue to be concerned over the low level of fully implemented agreed actions to audit recommendations at 74% against a target of 85%. We will continue to follow-up on the outstanding management actions to ensure fully implemented. Further implementation reviews are planned for March and currently reviewing the feasibility of extending controlled access to managers

across the council to the action tracking module of our audit management system and to receive automated email alerts of actions due.

9. Changes to the Internal Audit Plan 2011/12

9.1 The Internal Audit Plan is a dynamic document and consistently reviewed to ensure responsive to emerging risks, issues facing the council and ensuring audit resourced are focussed on key areas.

9.2 Changes were reported to and agreed by the Audit Committee at its September meeting. Since then there have been no significant changes to the Internal Audit Plan 2011/12.

10. Performance of Internal Audit

10.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also part of our business planning process and monitored regularly. Table 3 provides an overview of the performance of the Internal Audit Team against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	97%	95%
% implementation of agreed management actions	85%	74%
Efficiency		
% of productive time	71%	70%
% of draft reports issued within 10 days of fieldwork completion	90%	91%
% response by client to draft reports within 15 days	90%	84%
% of issue of final reports within 10 days of agreement	95%	93%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	94%

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

It is expected that the Internal Audit Plan for 2011/12 will be delivered within existing budgetary resources. In considering resources allocated to internal audit

work this needs to be balanced against the need for financial probity, financial risks and achieving value for money.

Finance Officer consulted: Anne Silley
Head of Business Engagement

9th February 2012

11.2 Legal Implications:

Regulation 6 of The Accounts & 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. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Legal Officer consulted: Oliver Dixon
Lawyer

9th February 2012

11.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

11.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

11.5 Crime & Disorder Implications:

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

11.6 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.

11.7 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 2011/12
2. Code of Practice for Internal Audit in Local Government, CIPFA (2006)
3. Accounts & Audit Regulations 2011