

# AUDIT & STANDARDS COMMITTEE

**Agenda Item 17**  
Brighton & Hove City Council

**Subject:** Internal Audit Annual Report and Opinion 2011/12  
**Date of Meeting:** 26<sup>th</sup> June 2012  
**Report of:** Director of Finance  
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**Wards Affected:** All

*Note: The special circumstances for non-compliance with Council Procedure Rule 7, Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that the Internal Audit Annual Report and Opinion 2011/12 was not fully completed due to outstanding queries.*

## 1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report presents the Internal Audit & Opinion Annual Report 2011/12 to Members of the Audit Committee at Appendix 1. The Head of Audit & Business Risk is required to prepare an annual assurance report on the Council's control environment. The report includes details of the audit work achieved against the Annual Audit Plan for 2011/12.
- 1.2 The purpose of this report is to provide an opinion on the effectiveness of the Council's control environment comprising governance, risk management and internal control as a contribution to the economic, efficient and effective use of resources. The internal audit work programme and annual opinion is a key source of evidence for annual review of governance arrangement and the Annual Governance Statement that is presented to this Committee.
- 1.2 The Audit & Standards Committee has a responsibility for reviewing the assurance framework for the Council which includes the Annual Internal Audit & Opinion Annual Report.

## 2. ASSURANCE FROM THE WORK OF AUDIT & BUSINESS RISK FOR 2011/12

- 2.1 During the year Audit & Business Risk completed 81 planned audit review (achieving the target of 95% of the revised Annual Audit Plan. The remaining 5% are at fieldwork stage.

- 2.2 Overall 73% of audit reviews undertaken gave either reasonable or substantial assurance, representation a decrease from the previous year of 9%.
- 2.3 On the basis of the audit work undertaken and management responses received, the Head of Audit & Business Risk is able to deliver a positive end of year opinion that **reasonable assurance** can be provided that an effective control environment is operating.

### 3. **RECOMMENDATIONS:**

It is recommended that the Audit Committee:

- Note the contents of the report at Appendix 1 including the Head of Audit & Business Risk's Opinion for 2011/12 on the adequacy and effectiveness of the Council's control environment; and
- Note the internal audit coverage and any significant issues emerging.

### 4. **BACKGROUND INFORMATION**

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of the council's internal control, risk management and governance arrangements. This includes identifying any actions or improvements for the effective use of resources. Internal audit is therefore a key part of the council's internal control system and integral to the framework of assurance that the Audit Committee can place reliance on to assess its internal control system.

The Accounts and Audit Regulations 2011 require the Council '*to undertake an adequate and effective internal audit of its accounting records and system of internal control in accordance with proper practices*'.

Within the Council the internal audit function sits within the Audit & Business Risk Service, carries out the work to satisfy the legislative requirement and reports its findings, conclusions and recommendations/agreed actions to Senior Managers and the Audit Committee.

Proper practice under the above regulations is defined by the Chartered Institute of Public Finance & Accountancy (CIPFA) 'Code of Practice for Internal Audit in Local Authorities' and has been adopted by the Council. This requires the Head of Audit & Business Risk to provide a written report to those charged with governance timed to support the review of corporate governance arrangements and the Annual Governance Statement. The report at Appendix 1:

- Provides an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- Discloses any qualifications to that opinion, together with reasons;
- Presents a summary of the audit work from which the opinion is derived;

- Draws attention to any issues of particular relevance;
- Compares the audit work actually undertaken against that planned and summarise the performance of the Internal Audit function against its performance measures and targets.

The Annual Internal Audit Plan for 2011/12 was presented and approved by the Audit Committee in April 2011. The Annual Report and Opinion therefore provides details of the outturn against the planned and unplanned work that arose during the year.

Audit performance is demonstrated achievement of the Annual Audit Plan, ensuring compliance with CIPFA Code of Practice and benchmarking the service against others in the sector. The effectiveness of Internal Audit is also further considered by the Audit Committee as part of their responsibilities under the Accounts & Audit Regulations 2011.

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

### 5.1 Financial Implications:

The Internal Audit & Opinion Annual Report 2011/12 outlines how resources were applied, the internal control recommendations, savings through counter fraud and other issues. The Internal Audit Plan for 2011/12 was delivered within budgetary resources for the year.

Anne Silley  
Business Engagement Manager  
Financial Services

17<sup>th</sup> June 2012

### 5.2 Legal Implications:

The Internal Audit Annual Report and Opinion complies with Regulation 6 of The Accounts & Audit Regulations 2011 which requires the council to 'undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'.

The report is for noting only.

Oliver Dixon  
Acting Senior Lawyer

17<sup>th</sup> June 2012

### 5.3 Equalities Implications:

Effective systems of internal control and corporate governance provide assurance on the effective allocation of resources and quality of service provision for the benefit of the community.

**5.4 Sustainability Implications:**

There are no direct sustainability implications arising from this report.

**5.5 Crime & Disorder Implications:**

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

**5.6 Risk and Opportunity Management Implications:**

Internal audit work/coverage is directed toward giving assurance about controls to mitigate risks identified through its audit risk assessment. This includes assurance around the design of those controls and the operating effectiveness.

Internal audit work contributes significantly to increasing awareness and understanding risk, controls and value for money amongst managers and thus leads to improving processes for securing more effective risk management.

**5.7 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. Annual Internal Audit Report and Opinion 2011/12

**Background Documents**

1. Accounts & Audit Regulations 2011 (amended)
2. Code of Practice for Internal Audit in Local Government 2006 (CIPFA)
3. Internal Audit Plan 2011/12
4. Individual Internal Audit Reports issued in 2011/12