

<b>Subject:</b>	<b>Audit &amp; Business Risk Progress Report</b>		
<b>Date of Meeting:</b>	<b>24<sup>th</sup> February 2009</b>		
<b>Report of:</b>	<b>Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Ian Withers</b>	<b>Tel:</b> <b>29-1323</b>
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<b>Wards Affected:</b>	<b>All</b>		

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

- 1.1 This report details the outcome of internal audit work completed since the last meeting of the Audit Committee in December 2008. Assurances are provided in accordance with the definitions of Internal Audit Assurance levels.
- 1.2 The report further shows the position regarding the delivery of the Internal Audit Plan for 2008/09.
- 1.3 The Accounts and Audit Regulations 2006 require every local authority to maintain an adequate and effective system of internal audit. Audit & Assurance Services carries out the work to satisfy this legislative requirement and part of its reporting on the outcome is to the Audit Committee.
- 1.4 The terms of reference of the Audit Committee include the requirement to consider the outcomes of work of both internal and external audit.

**2. Recommendations**

That the Audit Committee notes the contents of this report, in particular the status of internal audit work since the last meeting.

**3. Background Information**

- 3.1 The audits contained in the Internal Audit Plan 2008/09 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, control/risk environment, 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 2008-09**

- 4.1 The progress against the Internal Audit Plan 2008-09 is summarised in table 1 below.

**Table 1: Summary of progress against Internal Audit Plan 2008-09**

<b>Audit Stage</b>	<b>Explanation</b>	<b>No. of Audits</b>	<b>%</b>
Not Started	Planned but not started	11	6%
Planning	Planning of audit and agreement of Terms of Reference with client	12	11%
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	22	20%
Draft Report	Draft audit report issued and being agreed with client	19	18%
Final Report	Final agreed audit issued and audit complete	44	41%

- 4.2 The achievement of the Internal Audit Plan 2008-09 is based on the issue of final reports i.e. audits completed. The current projection for completion of the plan by the end of year is 92% against a target of 95%. A substantial number of audits are in progress either at draft report or fieldwork stages..
- 4.3 Although the Internal Audit Plan 2008-09 includes a contingency for unplanned work, the actual to date has substantially exceeded this and impacted on the achievement of our planned work. One example is the Equal Pay Project for which in excess of 100 audit days have so far been used. The outcome of this has been a significant contribution to reducing the financial and reputational risk to the council.
- 4.4 At the beginning of 2008/09 the Internal Audit Team experienced a high vacancy level due to natural career progression of staff and recruitment difficulties due to market demand for auditors.
- 4.5 A proportion of the lost audit days due to unplanned audit work and staff vacancies are being backfilled through procuring audit resources through a framework partnership arrangement.
- 4.6 The Internal Audit Plan 2008-09 is also being reviewed in terms of priorities together with the scope of specific reviews.

## 5. Final Audit Reports Issued

- 5.1 Since the last Audit Committee meeting, twelve audits 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 follow-up review of agreed actions. No major issues have arising from the final audit reports issued.
- 5.2 The twelve 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 Audit Reports Issued**

Audit	Report Status	Assurance Level	Agreed Actions for Improvement and Priority		
			High	Medium	Low
Concessionary Fares Project	Final	Reasonable	0	2	0
Looked After Children (Agency Placements)	Final	Substantial	0	3	1
Horsdean Travellers Site	Final	Reasonable	0	3	1
Falmer Academy	Final	Substantial	0	0	0
Treasury Management	Final	Full	0	0	0
Schools Financial Management	Final	Substantial	0	12	3
Constitutional Change	Final	Substantial	0	0	0
Community Stadium	Final	Substantial	0	0	0
Building Cleaning Contract	Final	Reasonable	0	3	3
Budget Management	Final	Substantial	0	4	0
Housing Benefit Administration Costs	Final	Substantial	0	2	0
City Parks Procurement and Use of Contractors	Final	Limited	1	3	0

- 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.

There are currently five levels of Internal Audit assurance used, 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. Advisory Work**

- 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 and service pressures. By taking this proactive approach, often problems and risks can be avoided. Specific areas include Data Security Management, Data Quality, Procurement, Concessionary Fares and Codes of Conduct.

## **7. Performance of Audit & Assurance Services**

- 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 Strategy and Annual Audit Plan. Table 3 provides members with an overview of the performance of Audit & Assurance Services against the key targets set.

**Table 3: Performance against targets**

<b>Performance Indicators</b>	<b>Target</b>	<b>Actual</b>
<b>Effectiveness</b>		
% of agreed recommendations	98%	99%
% implementation of agreed management actions	85%	82%
<b>CPA/CAA Use of Resources Score for Internal Control</b>	Level 4	Level 3
<b>Efficiency</b>		
% of planned days delivered	100%	71%
% of productive time	71%	75%
Achievement of Annual Internal Audit Plan	95%	41%
% of draft reports issued within 10 days of fieldwork completion	90%	92%
% response by client to draft reports within 15 days	90%	91%
% of issue of final reports within 10 days of agreement	95%	96%
<b>Quality of Service</b>		
% of customer satisfaction feedback in very good or good	90%	96%

**8. FINANCIAL & OTHER IMPLICATIONS:**

Financial Implications:

- 8.1 The Internal Audit Plan for 2008/09 will be delivered within existing budgetary resources.

Patrick Rice

12<sup>th</sup> February 2009

Legal Implications:

- 8.2 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.

Oliver Dixon

12<sup>th</sup> February 2009

Equalities Implications:

- 8.3 There are no direct equalities implications arising directly from this report

Sustainability Implications:

- 8.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 8.6 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.

Corporate / Citywide Implications:

- 8.7 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 Strategy and Internal Audit Plan 2008/09
2. Code of Practice for Internal Audit in Local Government (CIPFA) 2006
3. Accounts and Audit Regulations 2003 (Amended 2006)