



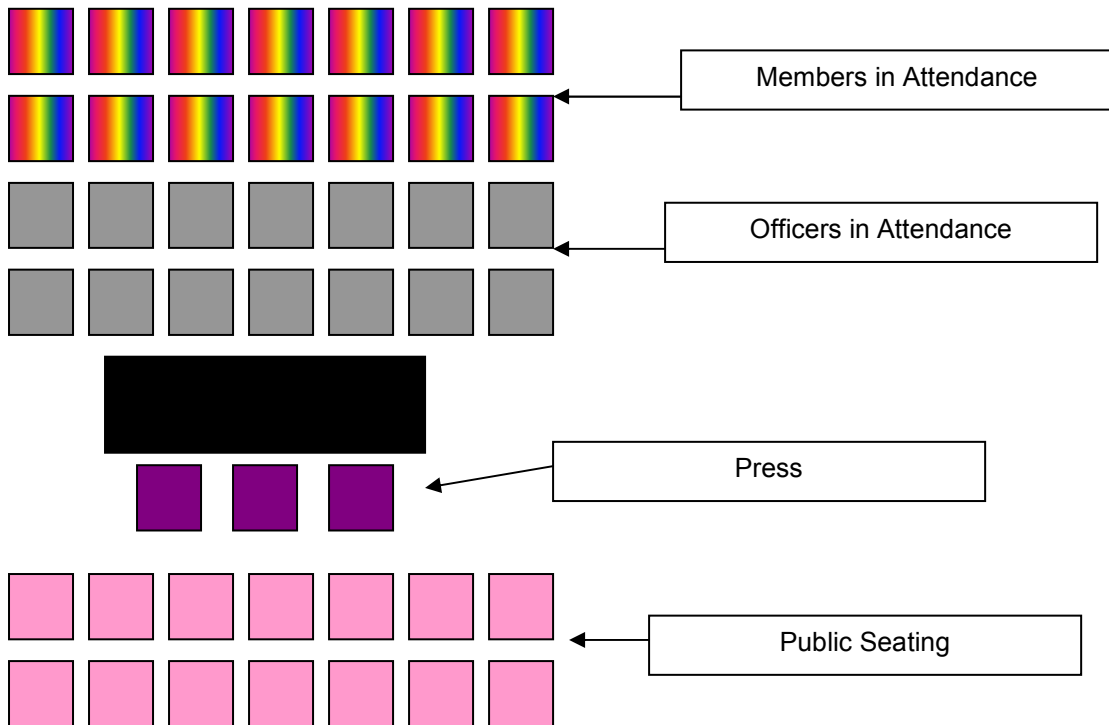
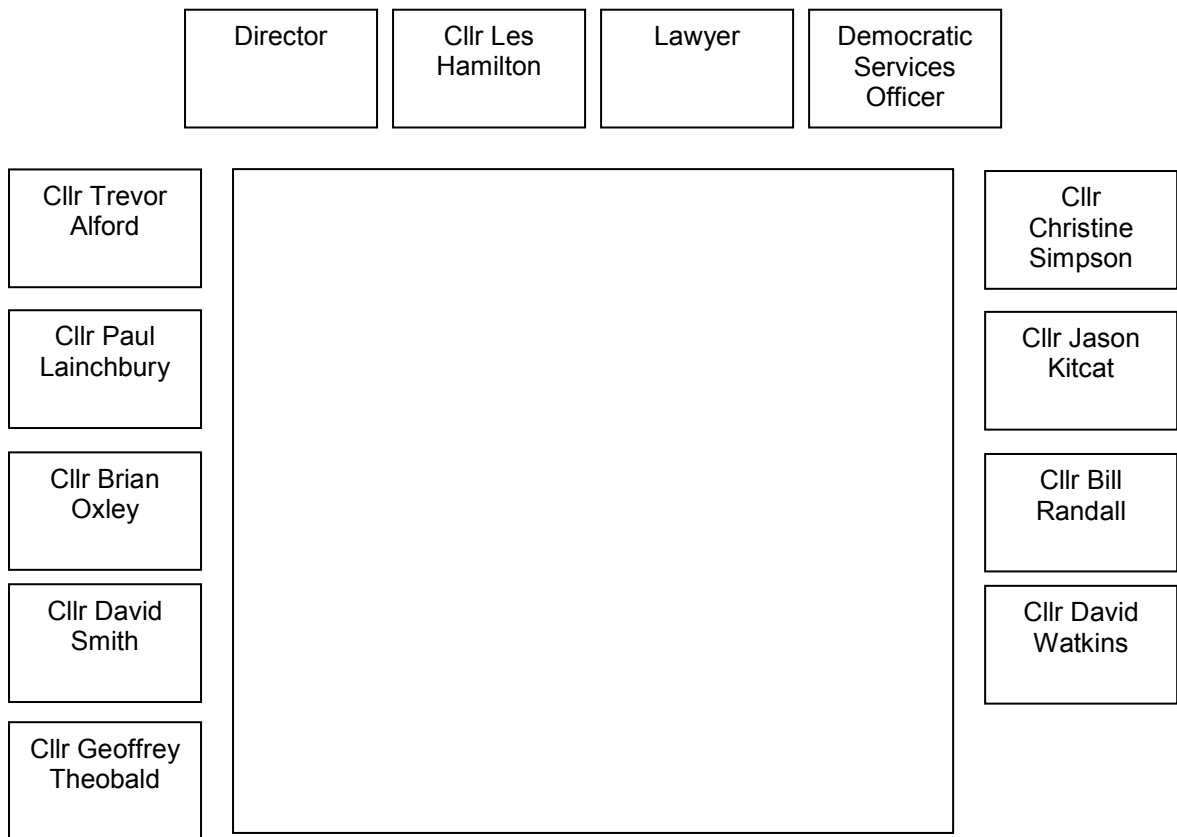
**Brighton & Hove
City Council**

Audit Committee

Title:	Audit Committee
Date:	4 November 2008
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chairman), Alford, Kitcat, Lainchbury, Oxley, Randall, Simpson, Smith, G Theobald and Watkins (Deputy Chairman)
Contact:	Penny Jennings Senior Democratic Services Officer 01273 291065 penny.jennings@brighton-hove.gov.uk

	The Town Hall has facilities for wheelchair users, including lifts and toilets
	An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter and infra red hearing aids are available for use during the meeting. If you require any further information or assistance, please contact the receptionist on arrival.
	<p>FIRE / EMERGENCY EVACUATION PROCEDURE</p> <p>If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:</p> <ul style="list-style-type: none"> • You should proceed calmly; do not run and do not use the lifts; • Do not stop to collect personal belongings; • Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions; and • Do not re-enter the building until told that it is safe to do so.

Democratic Services: Meeting Layout



AGENDA

36. PROCEDURAL BUSINESS

- (a) Declaration of Substitutes - Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.
- (b) Declarations of Interest by all Members present of any personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- (c) Exclusion of Press and Public - To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

NOTE: Any item appearing in Part 2 of the Agenda states in its heading the category under which the information disclosed in the report is exempt from disclosure and therefore not available to the public.

A list and description of the exempt categories is available for public inspection at Brighton and Hove Town Halls.

37. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the meeting held on 30 September 2008 (copy attached).

38. PUBLIC QUESTIONS

(The closing date for receipt of public questions is 12 noon on 27 October 2008).

No public questions received by date of publication.

39. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions received by date of publication.

40. DEPUTATIONS

(The closing date for receipt of deputations is 12 noon on 27 October 2008).

No deputations received by date of publication.

41. PETITIONS

No petitions received by date of publication.

AUDIT COMMITTEE

42. LETTERS FROM COUNCILLORS

No letters have been received.

43. AUDIT COMMISSION UPDATE REPORT

- Oral Report by representative(s) on behalf of the Audit Commission.

Contact Officer: Grahame Brown (Audit Commission)

Wards Affected: All

44. TREASURY MANAGEMENT

9 - 12

- Report of the Director of Finance and Resources (copy attached).

Contact Officer: Peter Sargent

Tel: 29 - 1241

Wards Affected: All

45. AUDIT AND ASSURANCE SERVICES PROGRESS REPORT

13 - 24

- Report of the Director of Finance and Resources (copy attached).

Contact Officer: Ian Withers

Tel: 29 – 1323

Wards Affected: All

46. REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

25 - 28

- Report of the Director of Finance and Resources (copy attached).

Contact Officer: Ian Withers

Tel: 29 - 1323

Wards Affected: All

47. RISK AND OPPORTUNITY MANAGEMENT (ROM) : UPDATE

- Oral report on behalf of the Director of Strategy and Governance .

Contact Officer: Jackie Algar

Tel: 29 - 1273

Wards Affected: All

48. NON-PUBLIC MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2008

29 - 30

Non-Public Minutes of the meeting held on 30 September 2008 (copy attached).

49. CORPORATE RISK MANAGEMENT ACTION PLANS FOCUS

- Oral report on behalf of the Director of Strategy and Governance.

AUDIT COMMITTEE

Members are requested to bring their copies of the Corporate Action Plans Circulated for the meeting on 30 September 2008 with them to this meeting .

Contact Officer: Jackie Algar
Wards Affected: All

Tel: 29- 1273

The City Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public. Provision is also made on the agendas for public questions to committees and details of how questions can be raised can be found on the website and/or on agendas for the meetings.

The closing date for receipt of public questions and deputations for the next meeting is 12 noon on the fifth working day before the meeting.

Agendas and minutes are published on the council's website www.brighton-hove.gov.uk. Agendas are available to view five working days prior to the meeting date.

Meeting papers can be provided, on request, in large print, in Braille, on audio tape or on disc, or translated into any other language as requested.

For further details and general enquiries about this meeting contact Penny Jennings, (01273 291065, email penny.jennings@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk

Date of Publication - Monday, 27 October 2008

AUDIT COMMITTEE

Agenda Item 37

Brighton & Hove City Council

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00PM – 30 SEPTEMBER 2008

HOVE TOWN HALL

MINUTES

Present: Councillors: Hamilton (Chairman); Alford, Kitcat, Mrs A Norman, K Norman Pidgeon, Oxley, Randall, Simpson and Watkins.

PART ONE

ACTION

19. PROCEDURAL BUSINESS

19A. Declarations of Substitutes

19.11 Substitute Councillor

For Councillor

Mrs A Norman
K Norman
Pidgeon
West

Smith
Lainchbury
G Theobald
Randall

19B. Declarations of Interest

19.2 There were none.

19C. Exclusion of Press and Public

19.3 The Committee considered whether the press and public should be excluded from the meeting during the consideration of any items contained in the agenda, having regard to the nature of the business to be transacted and the nature of the proceedings and the likelihood as to whether, if members of the press and public were present, there would be disclosure to them of confidential or exempt information as defined in Schedule 12A, Part 5A, Section 100A(4) or 100 1 of the Local Government Act 1972 (as amended).

19.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of Item 35, relative to "Risk and Opportunity Management" Corporate Risk Management Action

Plans 2008 / 09 - Exempt Paragraph 3.

20. MINUTES OF THE MEETING HELD ON 26 JUNE 2008

20.1 **RESOLVED** - That the minutes of the meeting held on 26 June 2008 be approved and signed by the chairman as a correct record .

21A. CHAIRMAN'S COMMUNICATIONS

21.1 The Chairman welcomed all Members to the meeting and referred to the training sessions which had been arranged by the Council's Risk and Opportunity Manager . Those who had attended had found these to be valuable. Any Members who had been unable to attend to date were encouraged to arrange to be briefed in respect of this matter as it was integral to the role of the Committee to seek to ensure that the processes within the Council to identify , manage and mitigate against or address potential risk were sufficiently robust and were effectively monitored .

21B. CALLOVER

21.2 It was agreed that all items set out on the agenda would be discussed .

22. PUBLIC QUESTIONS

22.1 There were none.

23. WRITTEN QUESTIONS FROM COUNCILLORS

23.1 There were none.

24. PETITIONS

24.1 There were none.

25. DEPUTATIONS

25.1 There were none.

26. LETTERS FROM COUNCILLORS

26.1 There were none.

27. AUDIT COMMISSION : ANNUAL GOVERNANCE REPORT

27.1 The Committee considered a report of the Council's appointed external auditor, The Audit Commission explaining that their audit for 2007 / 08 was substantially complete this was put together in the form of their Annual Governance Report. This formally reported the outcome of the audit of the Council's financial

statements (for copy see minute book).

- 27.2 Following a brief Introduction by the Assistant Director, Financial Services and Acting Section 151 Officer, Mrs Thompson, the District Auditor referred to the report and it was noted that it was intended that further update reports would be submitted to successive meetings of the Committee as appropriate relative to the on-going audit of the Council's financial activity..
- 27.3 **RESOLVED** - That the contents of the report issued by the Council's external auditor., The Audit Commission be noted in particular the findings and recommendations made .

28. AUDIT OF ACCOUNTS YEAR ENDED

- 28.1 The Committee considered a report of the Director of Finance and Resources relative to the Audit of Accounts to the year ended 31 March 2008 and the letter of the District Auditor in respect thereof (for copy see minute book).
- 28.2 It was noted that The Committee had approved the un audited Statement of Accounts in accordance with the relevant regulations at its meeting on 26 June 2008 and that since that date the Audit Commission had conducted its audit and had recommended a small number of amendments prior to issuing their opinion and to publication of the accounts, ; these were set out in the report .
- 28.3 The District Auditor referred to her Letter of Representation subsequently circulated as an appendix to the report and explained in answer to questions that there were no major concerns relative to the control of the Council's financial systems. In answer to further questions it was explained that the Committees role lay in seeking to monitor and ensure that robust processes were in place to ensure that effective mechanisms were in place for monitoring and control.
- 28.4 **RESOLVED** – (1) That the amendments to the 2007/ 08 Statement of Accounts be noted ;
- (2) The position statement regarding the annual Report and Summary of Accounts be noted ;
- (3) The results of the Public Inspection of Accounts be noted ;
- (4) That the “draft” letter of representation (appended to the report) be signed on the Council's behalf by the Chairman of the Audit Committee and the Council's Section 151 Officer .

29. AUDIT PROGRESS REPORT 2008 / 09

- 29.1 The Committee considered a report of the Audit Commission and Resources summarising the work to be carried out by the

external auditor for the 2008 / 09 audit year (for copy see minute book).

29.2 In answer to questions it was explained that further update reports would be provided as appropriate to subsequent meetings.

29.3 **RESOLVED** – (1) That the contents of the report be noted.

30. DRAFT HIGH LEVEL EXTERNAL AUDIT PLAN

30.1 The District Auditor explained that the “draft” high level external audit plan was drawn up as a result of on going dialogue between the Audit Commission and the relevant professional officers of the Council and would form the subject of further update reports to the Committee during the course of the financial year.

30.2 Councillor Watkins enquired whether it was possible for some of the regular up date information provided to officers to be provided to Members for their information. The District Auditor responded that such information was provided to their Members by some authorities but that this was a matter for individual authorities.

30.3 The Assistant Director, Financial Services and Acting Section 151 Officer explained that whilst consideration could be given to this however it would be probably more appropriate for such information to be accompanied by a brief covering report as much of the information contained therein could be of a very technical nature and or contain unfamiliar terminology . It was also likely that such reports would need to be considered in confidential session by virtue of the information contained in them.

30.4 **RESOLVED** - (1) That the content of the report be noted.

31. TARGETED BUDGET MANAGEMENT (TBM) : MONTH 4

31.1 The Committee considered a report of the Director of Finance and Resources setting out the forecast outturn position on the revenue and capital budgets as at the end of July 2008 (Month 4) (for copy see minute book).

31.2 It was noted explained in answer to questions that although it did not rest with the Committee to approve these reports, they were provided in order to inform its monitoring role . The chairman stated that as he understood it would be appropriate for the Committee to request additional information relative to any areas of activity referred to in order to facilitate that process. He stated that given that the Committees’ role was continuing to develop, he would write to the Director of Strategy

and Governance following the meeting in order to obtain clear guidance regarding its remit and relative to information which could legitimately be requested.

31.3 **RESOLVED** – That the contents of the report be noted.

32. AUDIT AND ASSURANCE SERVICES PROGRESS REPORT

32.1 The Committee considered a report of the Director of Finance and Resources detailing the outcome of internal audit work completed for the first five months (April to August) of 2008/09 including the position as against the Internal Audit Plan for 2008 / 09 (for copy see minute book).

32.2 The Head of Internal Audit explained that the Accounts and Audit Regulations 2008 required every local authority to maintain an adequate and effective system of internal audit. Audit and assurance Services carried out the work to satisfy this legislative requirement. The terms of reference of the Committee included the requirement to consider the outcomes of audit work of both internal and external audit . it was noted that the report did not include fraud irregularities, as this would form the subject of a separate report (anticipated for consideration at the scheduled November 2008 meeting of the Committee).

32.3 The audits contained in the Internal Audit Plan 2008 / 09 were based on an assessment of risk included an assessment of risk for each system or operational area. The assessment of risk included such elements as the level of corporate importance and materiality. In answer to questions it was explained that reports would come forward to Members where significant risks had been identified as would details of actions taken to address/ remedy them. Notwithstanding that there had been a high staff vacancy level within this team which had impacted on progress against the plan “backfilling” work was currently being undertaken and two Principal Auditors had been recruited and were due to commence in post in September.

32.4 Councillors Randall and Watkins enquired as to the scope of the Committee, the level of detail that members could request and the extent of its remit . The Chairman reiterated that he would seek confirmation and guidance from the Director of Strategy and Governance, but considered that one of the primary roles of the Committee was to seek to ensure that the Council had appropriate measures in place to monitor, quantify and take action as appropriate address the level of risk attendant across various areas of activities . it was also important that this could be demonstrated effectively to the Audit Commission.

32..5 **RESOLVED** - That the content of the report be noted.

33. ANNUAL GOVERNANCE STATEMENT UPDATE

33.1 The Committee considered a report of the Director of Finance and Resources setting out the Annual Governance Statement update. (For copy see minute book).

33.2 It was noted that since approval of the statement, it had been reviewed further by the Audit Commission as part of their external audit work. The statement had then undergone further subsequent amendments to include two minor suggestions arising from this process and, one further amendment relating to an action on partnerships in order to improve clarity. None of these amendments were considered to be significant and did not impact on the previous approval.

33.3 **RESOLVED** - That the amendments made to the annual Governance Statement be noted.

34. RISK AND OPPORTUNITY MANAGEMENT (ROM) - CORPORATE RISK REGISTER AND ANNUAL PEROGRAMME 2008 / 09

34.1 The Committee considered a report of the Director of Strategy and Governance relative to the Corporate Risk Register and Annual Programme for 2008 /09 (for copy see minute book).

34.2 It was explained that the Cabinet had approved the Risk and Opportunity Management (ROM) Strategy 2008 – 2011 at their meeting held on 10 July 2008. The ROM Strategy included a defined role for the Audit Committee whereby it received the Corporate Risk Register and ROM Programme (appendices 1 and 2 to the report respectively annually.

34.3 **RESOLVED** - (1) That the Committee note the Corporate Risk Register 2008 / 09 as set out in Appendix 1 to the report ; and

(2) The content of the ROM Programme 2008 / 09 as set out in Appendix 2 to the report be noted.

35. RISK AND OPPORTUNITY MANAGEMEN : CORPORATE RISK MANAGEMENT ACTION PLANS 2008 / 09

The Committee considered the above report which was considered whilst the public were excluded from the meeting as it contained exempt information as defined in Paragraph (3) of Schedule 12A to the Local Government Act 1972 (as amended).

The meeting concluded at 5.50pm

Signed

Chairman

Dated this

day of

2008

Subject:	Treasury Management		
Date of Meeting:	4 November 2008		
Report of:	Director of Finance & Resources		
Contact Officer:	Name: Peter Sargent	Tel: 29-1241	
	E-mail: peter.sargent@brighton-hove.gov.uk		
Wards Affected:	All		

FOR GENERAL RELEASE**1. SUMMARY AND POLICY CONTEXT:**

- 1.1 At the meeting of this Committee on 30 September 2008 it was agreed to receive a report on treasury management and, in particular, how increased investment risk resulting from the turmoil in the financial markets is managed within the council's treasury management policy.
- 1.2 The purpose of this report is to advise Committee Members on the key aspects of treasury management, in particular how investment parameters are determined and how investment counterparties are selected.
- 1.3 A presentation will be given at the Committee meeting to supplement this report.

2. RECOMMENDATIONS:

The Audit Committee are recommended to:

- 2.1 Note the framework within which investment risk is managed.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**3.1 Treasury management**

- 3.1.1 Treasury management is subject to a code of practice issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and investment guidance issued by the Government. Both these documents fall within best practice as determined by the Local Government Act 2003.
- 3.1.2 Treasury management is defined within the CIPFA code as

"The management of the organisation's cash flows, its bankings, money market and capital market transactions; the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.2 Investments

3.2.1 As part of the annual budget process the council has to determine the level of cash balance, reserves and provisions it requires in setting the council tax, housing rents and capital investment programmes. For the major part of the financial year these balances are supplemented by substantial cash flow surpluses. These surpluses result from income being received prior to spending being incurred – for example income from council tax and business rates falls over a 10-month period whereas major payments such as employee costs fall over a 12-month period. The council has a duty to ensure these balances are invested for the purposes of the prudent management of its financial affairs.

3.2.2 Investments are subject to guidance issued by the Government. The guidance requires full Council to approve an annual investment strategy that gives priority to security and liquidity. Security is assessed by reference to credit ratings issued by rating agencies. The council uses the ratings issued by Fitch.

3.2.3 Investment by the council is subject to the following parameters:

- The rating criteria used by the council to select institutions ensure that investments are made only in banks and building societies with the highest quality names. In the case of building societies where the society is not rated a minimum asset base of £2bn is applied.
- The amount lent to selected institutions is limited in terms of amount and period depending upon the credit worthiness of the individual institution. For example the highest rated institutions have a £10m limit over 2-3 years, whereas an unrated building society will have a £5m limit over a shorter period.

3.2.4 In all cases where the rating for an institution is either revised downwards by the rating agency or is subject to negative review by the agency the investment parameters are adjusted downwards. Negative information from other reputable sources, for example financial newspapers, may also affect the investment parameters for an institution. In some cases the institution is suspended until further clarification is received regarding the financial position of the institution.

3.3 Turmoil in the financial markets

3.3.1 The turmoil in the financial markets has resulted in a substantial reduction in lending by the major banks, both domestically and globally. This has led to significant funding problems within the UK banking sector. Like many organisations with substantial funds to invest the council reviews its investment policies all the time to reflect the rapidly changing market conditions. In response to the current conditions officers have, with effect from 13 October 2008, reduced the maximum period for all new investments to one month. In addition the selection of investment counterparty will be more intensive than present and will not be solely based on a satisfactory credit rating or asset base.

3.4 Borrowing

3.4.1 The majority of council borrowing is on fixed rate terms and therefore is not affected by current market conditions. New borrowing to finance the 2008/09 capital investment programme will be raised on terms that will enable the council to take advantage of improving market conditions in the future.

4. CONSULTATION

4.1 No consultation was necessary in the writing of this report.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 The financial implications of treasury management decisions are included in the Financing Costs budget. The original budget for 2008/09 was set at £7.929m. The financial crisis has meant short-term interest rates are higher than would normally be the case. These higher rates combined with better than expected council cash-flows has resulted in higher levels of projected investment income to the council of some £800,000 in the current financial year.

The Medium Term Financial Strategy includes investment income for 2009/10 averaging around 5% and for 2010/11 around 5.2%. In October 2008 the Bank of England announced a 50 basis points (½%) cut in official interest rates. This cut is widely expected to be the first of a number of cuts over the next 18-months as the Bank switches its attention from inflation to negative economic growth. The general consensus of forecasts for the Base Rate by March 2010 is 3¼%. Market rates are projected to follow a similar but more dramatic fall as the margin between official rates and market rates narrows. Market rates for 2009/10 are projected to average around 4%. Interest rates in 2010/11 are expected to be marginally above the average for 2009/10.

The projected fall in interest rates will therefore have a substantial adverse impact on investment returns for 2009/10 and 2010/11. Action will be taken, where possible, to minimise any adverse impact of lower interest rates in 2009/10 but the decision taken by officers in October 2008 to reduce new investments for one month may limit the scope for such action if the current uncertainty in the financial markets continues for any considerable period.

Finance Officer Consulted: Peter Sargent Date: 22 October 2008

Legal Implications:

5.2 Treasury management, including investments, must be in accordance with Part I of the Local Government Act 2003 and regulations issued thereunder. Relevant guidance also needs to be taken into account. This report is for information purposes only and as such it is not considered that anyone's rights under the Human Rights Act will be adversely affected by it.

Lawyer Consulted: Abraham Ghebre-Ghiorghis Date: 21 October 2008

Equalities Implications:

- 5.3 This report is for information and therefore an equalities assessment impact is not required.

Sustainability Implications:

- 5.4 None directly from this report.

Crime & Disorder Implications:

- 5.5 None directly from this report.

Risk and Opportunity Management Implications:

- 5.6 The turmoil in the financial markets has resulted in an increased risk that institutions will not be able to meet debt repayments in full or in a timely manner. The council is managing this risk by investing in only the highest quality names and through constant monitoring of its investment strategy.
- 5.7 Opportunities to invest at higher interest rates have enabled the council to achieve additional investment income above that previously budgeted.

Corporate / Citywide Implications:

- 5.8 None directly from this report.

SUPPORTING DOCUMENTATION

Appendices:

1. None

Documents In Members' Rooms

None

Background Documents

1. Annual Treasury Management Policy Statement 2008/09
2. Annual Investment Strategy 2008/09

AUDIT COMMITTEE

Agenda Item 45

Brighton & Hove City Council

Subject: Audit & Assurance Services Progress Report

Date of Meeting: 4th November 2008

Report of: Director of Finance & Resources

Contact Officer: Name: Ian Withers Tel: 29-1323

E-mail: ian.withers@brighton-hove.gov.uk

Wards Affected: All

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 at the end of September 2008. The report further shows the position regarding the delivery of the Internal Audit Plan for 2008/09.
- 1.2 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.
- 1.3 The terms of reference of the Audit Committee include the requirement to consider the outcomes of audit work of both internal and external.
- 1.4 This report does not include fraud and irregularities. This will be the subject of a separate report on outcomes and activities, to the December meeting.
- 1.5 It has been agreed that a report will be provided to the February meeting on the status of agreed management actions arising from finalised audit reports issued in 2008/09 and 2007/08.

2. Recommendations

That the Audit Committee notes the contents of this report, in particular the status of internal audit work since September 2008.

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, 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 A full analysis of progress against the agreed Internal Audit Plan 2008-09 is shown at Appendix 1. This is summarised in Table 1.

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

Audit Stage	Explanation	No.	%
Not Started	Planned but not started	49	41%
Planning	Planning of audit and agreement of Terms of Reference with client	6	5%
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	27	23%
Draft Report	Draft audit report issued and being agreed with client	23	19%
Final Report	Final agreed audit issued and audit complete	14	12%

- 4.2 The achievement of the Annual Internal Audit Plan is based on the issue of final reports i.e. audits completed. This is still considered to be low at only 12%, although it should be noted that a large number are at draft report stage. We are making significant efforts with management to finalise these and expect the next progress report to show a significant improvement.
- 4.3 So far for 2008/09 the team has experienced a high vacancy level due to recruitment difficulties for the first half year. Although this has improved recently with two new members of staff commencing, we will be seeking to backfill the vacancies in the second half year using agency staff and contractors.

5. Final Audit Reports Issued

5.1 The time period since the last committee meeting at the end of September has been relatively short and this is reflected in only five audits being completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions.

Table 2: Final Reports Issued

Audit	Report Status	Assurance Level	Agreed Actions and Priority		
			High	Medium	Low
City Car Club	Final	Substantial	0	5	0
Penalty Charge Notice (PCN) Income	Final	Reasonable	0	2	0
Security of Council Buildings	Final	Reasonable	0	8	0
Waivers to Contract Standing Orders	Final	Substantial	0	3	0
Sports & Leisure Construction Projects	Final	Substantial	0	3	0

5.2 No major issues have arising from the final audit reports issued.

5.3 There is a best practice requirement for the Head of Audit & Assurance to provide a statement on the level of assurance on the effectiveness of internal controls and mitigation of risks, for each individual audit carried out.

5.4 There are currently five levels of audit assurance used and these are summarised as follow:

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 to Directorates

- 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. By taking this proactive approach, often problems and risks can be avoided. Specific areas include Contract Management, Information Security 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 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

Performance Indicators	Target	Actual
Effectiveness		
% of agreed recommendations	98%	100%
% implementation of agreed management actions	85%	83%
CPA/CAA Use of Resources Score for Internal Control	Level 4	N/A
Efficiency		
% of planned days delivered	100%	37%
% of productive time	71%	75%
Achievement of Annual Internal Audit Plan	95%	12%
% of draft reports issued within 10 days of fieldwork completion	90%	96%
% response by client to draft reports within 15 days	90%	92%
% of issue of final reports within 10 days of agreement	95%	98%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	96%

8. FINANCIAL & OTHER IMPLICATIONS:

8.1 Financial Implications:

Sound corporate governance and proper systems of internal control are essential to the financial health and reputation of the council.

8.2 Legal Implications:

The Accounts & Audit 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'.

8.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

8.4 Sustainability Implications:

There are no direct sustainability implications arising from this report.

8.5 Crime & Disorder Implications:

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

8.6 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.

8.7 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. Progress against the Internal Audit Plan 2008/09

Background Documents

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

Appendix 1

Progress against the Internal Audit Plan 2008-09

Thematic Area	Ref.	Audit	Planned Start	Current Status	
Corporate Governance	A108	Major Projects Governance Arrangements	Quarter 2	Fieldwork	
	A059	Business Continuity	Quarter 3	Fieldwork	
	A248	Emergency Planning	Quarter 2	Fieldwork	
	A254	CPA Use of Resources	Quarter 1	Fieldwork	
	A169	Financial Governance	Quarter 4	Not Started	
	A213	Fire Safety Reg. Reform Orders	Quarter 3	Not Started	
	A255	Section 75 Partnership Arrangements	Quarter 4	Not Started	
	A002	Annual Governance Statement	Quarters 1	Final Report	
	A189	Partnership Governance	Quarter 1	Draft Report	
	A215	Business Planning	Quarter 3	Not Started	
	A096	Risk Management	Quarter 3	Not Started	
	A256	Constitutional Change and New Governance Arrangements (2 Audits)	Quarter 3 & Quarter 4	Draft Report	
	A181	Corporate Health & Safety	Quarter 4	Not Started	
	A092	Members Code of Conduct – Locally Managed Framework	Quarter 2	Fieldwork	
	A249	Equalities & Diversity	Quarter 1	Final Report	
	A257	Declarations of Interest, Gifts & Hospitality	Quarter 4	Not Started	
	A258	Standards of Behaviours and associated guidance and policies	Quarter 4	Not Started	
	Cross Cutting	A259	Record and Archives Storage and Management	Quarter 2	Draft Report
		A004	Transport Fleet Management	Quarter 3	Not Started
		A260	Use of Car Club	Quarter 2	Final Report

Thematic Area	Ref.	Audit	Planned Start	Current Status
	A261	Buildings Security	Quarter 1	Final Report
	A005	Debt Collection and Recovery	Quarter 3	Fieldwork
	A232	Accommodation Strategy	Quarter 3	Not Started
	A021	Data Quality	Quarter 3	Not Started
	A003	Absence Management	Quarter 4	Not Started
	A262	Training & Development	Quarter 3	Planning
	A181	Health & Safety – Contractual Works to Civic Buildings	Quarter 1	Final Report
	A168	CRB Checks for Staff	Quarter 4	Not Started
Key Financial Systems	A009	Main Accounting System/General Ledger	Quarter 4	Not Started
	A010	Creditors/Accounts Payable	Quarter 4	Not Started
	A011	Debtors/Accounts Receivable	Quarter 4	Not Started
	A225	Cash Collection and Bank	Quarter 4	Not Started
	A013	Treasury Management	Quarter 4	Not Started
	A008	Revenue Budget Management	Quarter 2	Fieldwork
	A015	Council Tax	Quarter 4	Not Started
	A016	NNDR (Business Rates)	Quarter 4	Not Started
	A017	Housing & Council Tax Benefits	Quarter 4	Not Started
	A018	Housing Rents	Quarter 4	Not Started
	A012	Capital Accounting and Expenditure	Quarter 4	Not Started
	A014	Payroll	Quarter 4	Not Started
Procurement & Contract Management	A025	Education PFI	Quarter 1	Draft Report
	A157	Home to School Transport	Quarter 3	Not Started
	A262	Schools Procurement	Quarter 1	Draft Report
	A263	Leisure Construction Projects	Quarter 2	Final Report
	A192	Highways Contract	Quarter 3	Not Started
	A264	City Parks Use of Subcontractors	Quarter 3	Fieldwork

Thematic Area	Ref.	Audit	Planned Start	Current Status
	A049	Integrated Waste Management Contract – Finance Model	Quarter 3	Fieldwork
	A049	Integrated Waste Management Contract – Contract Management	Quarter 4	Not Started
	A049	Integrated Waste Management Contract - Governance Arrangements	Quarter 3	Fieldwork
	A264	Commercial Property Portfolio	Quarter 2	Fieldwork
	A265	Building Cleaning Contract	Quarter 3	Not Started
	A196	Approved List	Quarter 4	Not Started
	A065	Waivers to Contract Standing Orders	Quarter 2	Final Report
	A018	Housing Repairs (Existing Contract)	Quarter 3	Not Started
	A018	Housing Repairs (Procurement of new housing repairs contract)	Quarter 3-4	Not Started
	A266	Adult Social Care Contracts – Financial Assessments	Quarter 1	Final Report
ICT & E-Government	A251	Data Management and Security Arrangements	Quarter 3	Not Started
	A267	Electronic Payments	Quarter 1	Draft Report
	A268	Human Resource System Acquisition and Implementation	Quarter 1-4	Fieldwork
	A037	Disaster Planning and Recovery	Quarter 4	Not Started
	A034	SIMS FMS	Quarter 3	Draft Report
	A042	Change Controls	Quarter 2	Fieldwork
	A269	GIS System Implementation	Quarters 1 – 4	Draft Report
	A270	End User Computing	Quarter 3	Fieldwork
	A150	Disposal of IT Hardware	Quarter 1	Draft Report
	A271	Security and Access Control	Quarter 3	Not Started

Thematic Area	Ref.	Audit	Planned Start	Current Status
	A272	Development of City Council's Internet and Intranet	Quarter 1-4	Draft Report
	A273	Internet Security	Quarter 1	Draft Report
	A274	Network Security	Quarter 4	Not Started
	A275	Network Security (Ethical Hacking)	Quarter 4	Not Started
	A276	Government Connect	Quarter 2	Fieldwork
	A276	CIVICA Procurement	Quarter 3	Not Started
	A176	Sussex Partnership Trust and Data Warehousing	Quarter 3	Not Started
	A031	CareFirst 6	Quarter 1	Draft Report
	A041	ICT Security Standards	Quarter 4	Not Started
	A044	Freedom of Information	Quarter 4	Not Started
	A212	Data Protection	Quarter 4	Not Started
	A277	Mobile Phones	Quarter 1	Final Report
Service Specific	A278	Portslade Community College	Quarter 2	Draft Report
	A279	Extended Schools Services	Quarter 1	Final Report
	A280	Children not in mainstream educations	Quarter 2	Fieldwork
	A023	Looked after Children	Quarter 3	Not Started
	A200	Children's Centres	Quarter 3	Fieldwork
	A194	Brighton Centre	Quarter 4	Not Started
	A281	The Academy	Quarter 2	Fieldwork
	A282	Community Stadium	Quarter 2	Fieldwork
	A108	Major Projects Development	Quarter 2	Fieldwork
	A052	On-Street and Off Street Parking Income	Quarter 3	Not Started
	A052	On Street Penalty Charge Notices (PCNs)	Quarter 2	Final Report
	A283	City Clean Stores & Fuel	Quarter 3	Planning
	A216	Design, Print and Sign Unit	Quarter 3	Planning
	A284	Horsdean Traveller Site	Quarter 2	Fieldwork
	A094	New Deal in the Community (NDC)	Quarter 1	Final Report

Thematic Area	Ref.	Audit	Planned Start	Current Status
	A285	Property Services – Project Management	Quarter 2	Fieldwork
	A075	Closure of Main Cashiers	Quarter 1	Final Report
	A286	Schools Financial Management	Quarter 3	Planning
	A287	School Funding	Quarter 3	Planning
	A077	Concessionary Fares	Quarter 4	Not Started
	A015	Council Tax Single Persons Discounts and Exemptions	Quarter 3	Not Started
	A017	Housing Benefits of Recovery of Overpayments	Quarter 3	Planning
	A017	Housing Benefits Administration Costs	Quarter 3	Not Started
	A288	Housing Estates Services	Quarter 3	Not Started
	A074	Self Directed Support	Quarter 3	Not Started
	A289	Adult Social Care – Residential Care	Quarter 2	Fieldwork
	A067	Home Care Services	Quarter 4	Not Started
	A081	Housing Voids Management	Quarter 4	Not Started
	A014	Human Resources Management/Payroll – Review of changes to process flows	Quarter 3	Not Started
	A014	Human Resource Management/Payroll – Establishment control	Quarter 4	Not Started
Counter Fraud Programme	F002	City Council's Anti Fraud & Corruption Framework	Quarters 1 – 4	Fieldwork
	F003	Counter Fraud Policy (Review & Update)	Quarter 3	Fieldwork
	F004	Whistleblowing Policy (Review & Update)	Quarter 3	Not Started
	F006	National Anti Fraud Initiative and Data Matching	Quarters 3 -4	Fieldwork
	F008	Money Laundering Arrangements	Quarter 4	Not Started
	F010	City Wide Anti Fraud Campaign (Refresher)	Quarter 4	Not Started

Thematic Area	Ref.	Audit	Planned Start	Current Status
	F012	Identity Fraud	Quarter 3	Not Started
Grants and National Performance Indicators	A247	Local Area Agreement (LAA)	Quarter 1	Final Report
	A017	Housing Benefit Subsidy	Quarter 3	Fieldwork
	A185	NNDR Grant	Quarter 3	Draft Report
	A290	National Performance Indicators Set	Quarter 3	Not Started

AUDIT COMMITTEE**Agenda Item 46**

Brighton & Hove City Council

Subject: Effectiveness of Internal Audit**Date of Meeting: 4th November 2008****Report of: Director of Finance & Resources****Contact Officer: Name: Ian Withers Tel: 29-1323**E-mail: ian.withers@brighton-hove.gov.uk**Wards Affected: All****FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 This report provides background, process and method by which the Audit Committee can comply with its requirement in considering the outcome of the annual review of the effectiveness of internal audit.

2. RECOMMENDATIONS:

That the Audit Committee approve the process using:

- Self assessment against the CIPFA Code of Practice for Internal Audit in Local Government (2006);
- A peer review with the London Boroughs of Bromley and Bexley;
- Use of performance data and comparison with the results of the IPF Benchmarking Exercise 2008;
- External Audit Review; and
- An Internal Audit Customer Satisfaction Survey.

That two members of the Audit Committee participate in the task group for the review.

That the Audit Committee receives a report at its February meeting providing sufficient evidence and opinion to base the review on. This will also include any improvement actions required.

BACKGROUND INFORMATION

- 3.1 Regulations aiming at strengthening governance and accountability have introduced the requirement to carry out and for the Audit Committee to consider the findings of an annual review of the effectiveness of the system of internal audit. This is a requirement under Regulation 6 of the Accounts and Audit (Amendment) Regulations 2006 that *the body shall*

review the system of internal audit at least once per year and the findings of the review to be considered by a committee of the body.

- 3.2 The Department for Communities and Local Government (DCLG) guidance suggests that for those local authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review as the committee already has oversight of internal audit.

4. Method and Sources of Evidence

CIPFA Code of Practice for Internal Audit in Local Government (2006)

- 4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) last updated its Code of Practice for Internal Audit in Local Government in 2006. It provides a self-assessment checklist for compliance against the professional standards.

External/Peer Review

- 4.2 The Audit Commission has previously raised the issue of being able to demonstrate a good level of independent challenge as part of the review. Some local authorities have used external consultants for this but obviously the monetary cost of commissioning is high. In common with a large number of other local authorities, a reciprocal peer review group has been established with the London Boroughs of Bromley and Bexley.

IPF Annual Benchmarking Exercise for Internal Audit

- 4.3 We currently participate in an annual exercise run by the Institute of Public Finance (IPF) that benchmarks our service against a number of other Unitary Local Authorities. This outcome of this together with other performance data will be used for the review.

External Audit View of Internal Audit

- 4.4 As part of the requirements of the International Standards of Auditing (ISAs) the Audit Commission are required to undertake a full review of Internal Audit every three years, as part of its risk assessment of the council and in order to place reliance on the function. This review was last carried out in 2006.
- 4.5 As part of the Use of Resources element of the Comprehensive Performance Assessment (CPA) the council is assessed on the effectiveness of its internal control. The assessment includes specific key lines of enquiry relating to the council's internal audit.

Internal Audit Customer Satisfaction Survey

- 4.6 An internal audit customer satisfaction survey using methodology prescribed by and run in conjunction with CIPFA. This will focus on the quality and impact of outcomes from audit work.

Review Task Group

- 4.7 A task and finish group is planned to assist and oversee the review. Two members of the Audit Committee are invited to participate in the task group.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

There are no significant financial implications.

5.2 Legal Implications:

Regulation 6 of Accounts & Audit Regulations 2006 require that *the body shall review the system of internal audit at least once per year and the findings of the review to be considered by a committee of the body*

5.3 Equalities Implications:

There are no direct equalities implications arising directly from this report

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:

An effective system of Internal Audit is a key part of the management of risks..

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

Background Documents

1. Accounts & Audit (Amendment) Regulations 2006
2. CIPFA Code of Practice for Internal Audit in Local Government (2006)

Document is Restricted

