

Subject: Audit & Business Risk Progress Report
Date of Meeting: 28th September 2010
Report of: Director of Finance & Resources
Contact Officer: Name: Ian Withers Tel: 29-1323
E-mail: ian.withers@brighton-hove.gov.uk
Wards Affected:

FOR GENERAL RELEASE

1. Summary and Policy Context

- 1.1 This report summarises progress made against the Internal Audit Plan for 2010/11, provides the results from reviews completed for the year and reports the achievement against Internal Audit Key Performance Indicators.

2. Recommendation

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2010/11.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), 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 audits contained in the Internal Audit Plan 2010/11 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.

3.4 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 Director.

5. Progress against the Internal Audit Plan 2010/11

5.1 The progress against the amended Internal Audit Plan for 2010/11 for audit reviews is summarised in Table 2 below.

Table 1: Summary of progress against Internal Audit Plan 2010/11

Audit Stage	Explanation	No.	%
Not Started	Planned but not started	61	53
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	29	26
Draft Report	Draft audit report issued and being agreed with client	12	11
Final Report	Final agreed audit issued and audit complete	11	10
		113	100

5.2 There has been an impact on the achievement of the Annual Internal Audit Plan so far this year due to two posts being vacant within the team. Like many local authority internal audit teams, there is a reasonable level of staff turnover together with a market shortage of internal auditors. We have recently been successful in recruiting to the vacant posts of Audit Manager and Principal Auditor.

5.3 To ensure achievement of the Internal Audit Plan we are also in the process of agreeing to outsource a number of audit reviews for the remainder of the year to Deloitte & Touche under a framework contract with the London Borough of Croydon.

5.4 During the first quarter we had a higher than normal level of residual work from 2009/10 for completion, due to delays on certain audit reviews and completion of certain fundamental systems audit reviews.

5.5 We are confident in completing the Internal Audit Plan for 2010/11. This is however a dynamic plan and subject to change to address emerging risks and issues facing the council. . A further progress report to the December meeting of this committee will include any amendments and reasons.

6. Final Audit Reports Issued

6.1 During the period, eleven audit reviews have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level.

6.2 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.

Table 2: Final Reports Issued

Audit	Report Status	Assurance Level	Agreed Actions and Priority		
			High	Medium	Low
Records Management – Cross Cutting	Final	Limited	2	11	0
Energy Contracts	Final	Limited	2	14	1
Leisure Management Contract	Final	Reasonable	0	11	3
Housing Tenancy Verification	Final	Limited	0	10	8
Leasehold Service Charges	Final	Substantial	0	1	6
Local Land Charges	Final	Substantial	0	1	1
Registrars' Service	Final	Limited	1	6	3
Transport Management – Adult Social Care	Final	Reasonable	0	6	1
Implementation of iTrent – Parallel Run Testing	Final	Reasonable	0	4	0
Annual Governance Statement	Final	-	-	-	-
Grants to Voluntary Organisations	Final	Substantial	0	4	1

6.3 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.

6.4 There are currently five levels of audit assurance used 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.

7. Advice and Support Corporate and Directorates

- 7.1 We have continued to be pragmatic in providing professional proactive advice and this element of our work is seen as invaluable both corporately and by directorates, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 7.2 It is good to report a continuing high level of engagement for advice and information across the council. Areas include iTrent (HR and Payroll) implementation, equal pay, contract management, information security and schools.

8. Counter Fraud Work

- 8.1 Since April 2010 eighteen new cases suspected irregularities have been referred to Audit & Business Risk and investigated.
- 8.2 We have been completing a major review of Fraud Risk and Measurement with Deloitte & Touche and this is likely to be reported to the next Audit Committee meeting in December.
- 8.3 We have been completing the National Fraud Initiative (NFI) exercise 2009/10 and savings continue to increase. We are currently preparing for the next exercise which will include additional data sets.

9. Implications for Governance

- 9.1 No control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year, considered to have a significant impact on the governance of the council.

10. Performance of Audit & Business Risk

- 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 included in our Service Business Plan and monitored regularly. Table 4 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	100%
% implementation of agreed management actions	85%	87%
Efficiency		
% of planned direct days delivered for year	100%	34%
% of productive time	71%	75%
Achievement of Annual Internal Audit Plan *	100%	10%
% of draft reports issued within 10 days of fieldwork completion	90%	100%
% response by client to draft reports within 15 days	90%	100%
% of issue of final reports within 10 days of agreement	95%	100%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	100%

* Achievement of Annual Internal Audit Plan based on final reports issued

10.2 The results from the recent CIPFA Audit Benchmarking exercise were very favourable in comparing our internal audit service with that of other unitary local authorities, in particular the cost per day, productivity and coverage. These will be reported in more detail as part of the effectiveness of review of internal audit.

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

The Internal Audit Plan for 2010/11 will be delivered within existing budgetary resources. Any reduction in internal audit work would have a negative impact on for example financial probity and value for money. This in turn would have a negative impact on the council's finances through increased financial risk.

Patrick Rice
Acting Assistant Director Financial Services

16th September 2010

11.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2003 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. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Oliver Dixon
Lawyer

16th September 2010

- 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. Annual Internal Audit Plan 2010/11
2. Code of Practice for Internal Audit in Local Government (CIPFA) 2006
3. Accounts & Audit Regulations 2003 (Amended 2006)