

AUDIT & STANDARDS COMMITTEE

Agenda Item 13

Brighton & Hove City
Council

Subject:	Review of the Effectiveness of the System of Internal Audit		
Date of Meeting:	24 June 2014		
Report of:	Executive Director of Finance & Resources		
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Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The council is required to conduct an annual review of the effectiveness of its Internal Audit, the findings of which are to be considered by a committee (designated as the Audit & Standards Committee at this council).
- 1.2 This report details the results of a self-assessment of the system of Internal Audit against the UK Public Sector Internal Audit Standards.
- 1.3 The process should also be considered as part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement.

2. RECOMMENDATIONS:

That the Audit & Standards Committee:

- 2.1 Considers the findings of the review of the effectiveness of Internal Audit.
- 2.2 Notes the conclusion of the review that the system of internal audit for the council continues to be effective and operating in accordance with proper professional practice; and that the council can place reliance on the system of internal audit for the purpose of its Annual Governance Statement.

3. BACKGROUND

Legislative Requirements

- 3.1 The Accounts and Audit Regulations 2011 require local authorities to undertake at least once in each year *“a review of the effectiveness of its internal audit and have the findings considered by a committee”*.
- 3.2 All local authorities have a statutory requirement to make provision for internal audit and for the purpose of the regulations, in accordance with proper practices. The Public Sector Internal Audit Standards together with the Local Government Application Note are designated as proper practice for this purpose.

Defining the Effectiveness of system of Internal Audit

- 3.3 A professional, independent and objective internal audit service should be one of the key elements of good governance in the council.
- 3.4 It needs to:
 - understand the whole organisation, its needs and objectives
 - understand its position with respect to the organisation’s other sources of assurance and plan its work accordingly
 - be seen as a catalyst for improvement at the heart of the organisation
 - add value and assist the organisation in achieving its objectives, and
 - be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.
- 3.5 The foundation of an effective internal audit service is its compliance with standards and proper practices.

4. PROCESS

Public Sector Internal Audit Standards

- 4.1 The Public Sector Internal Audit Standards contain a checklist covering 334 questions. The majority of these relate to requirements that are very similar to those that were previously required by the Code of Practice on Internal Audit in Local Government (CIPFA) but there are some areas where the requirements are now more specific.

- 4.2 The standards require an annual self-assessment to be carried out and then every five years an external review. Conformance with professional standards and best practice is seen as the foundation for an effective Internal Audit service.
- 4.3 The self-assessment against this checklist was carried out by the Acting Head of Internal Audit in December 2013 and has been revisited for the purpose of this annual review and report. As part of this process consultation has taken place with the Chair of the Audit & Standards Committee and the Executive Director of Finance & Resources.
- 4.4 The self-assessment against the Standards comprises the following areas:

Definition of Internal Auditing

Code of Ethics

- Integrity
- Objectivity
- Confidentiality
- Competency

Attribute Standards

- Purpose, authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme

Performance Standards

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating Results

5. OUTCOME AND ACTIONS

- 5.1 From the evidence of this review, it is considered that the Authority's Internal Audit function complies with the standard.
- 5.2 A summary of the self-assessment against each of these areas is shown in Appendix 1.
- 5.3 As at the end of 2013/14, the service has been self-assessed as 99% compliant against the self-assessment questions.

- 5.4 The remaining 1% has been assessed as partial compliance as responsibility for the appointment and removal of the Head of Internal Audit is not the sole responsibility of the Audit & Standards Committee. In addition, the Audit & Standards Committee does not have responsibility for approving the budget of the service, although it does have a role in directing the use of resources through the approval of the audit plan.
- 5.5 There were 11 of the 334 questions which have been self-assessed as Not Applicable (N/A). The reason for this is that these questions all relate to the five year external review that has not yet taken place. The Director of Finance & Resources has recommended that this be scheduled during 2014/15.
- 5.6 It should be noted that compliance with the Public Sector Internal Audit Standards does not in itself guarantee an effective service. Within this year's Internal Audit Plan and Strategy a number of areas for service development were identified. These are reiterated here:-
- Continue to improve our arrangements for the follow-up of recommendations and the escalation of those where appropriate action has not been taken.
 - To work with the Corporate Fraud Team to promote an anti-fraud culture and to detect and investigate allegations of potential fraud.
 - Encourage the raising of legitimate concerns through the Whistleblowing Policy and the Fraud Hotline.
 - Contribute to the improvement of the Council's Corporate Governance arrangements.
 - Increase the number of individual schools audits and the resources set aside for these reviews.
 - Follow-up on the control weaknesses identified in the ICT Limited Assurance reviews.
 - Support key funding and service changes in relation to the implementation of the Care Act and Better Care Fund.
 - Support the Council's Value for Money Programme and seek assurance that projects and programmes are on track to deliver.

6. FINANCIAL & OTHER IMPLICATIONS:

6.1 Financial Implications:

The areas for service development within this review can be managed within the budget of the Internal Audit service for 2014/15.

Finance Officer Consulted: James Hengeveld Date: 09/06/14

6.2 Legal Implications:

The statutory provision referred to in paragraph 3.1 above is regulation 4(2) of the Accounts and Audit Regulations 2011. These regulations also require the findings

of the effectiveness review to be considered by full Council or a council committee. In the case of Brighton & Hove, the Audit & Standards Committee is the designated committee for this purpose. Following the review, the Committee must approve an annual governance statement prepared in accordance with proper practices in relation to internal control.

Lawyer consulted: Oliver Dixon

Date: 30/05/14

6.3 Equalities Implications:

When carrying out audit work, any equality issues identified are reported to the appropriate level of management. The Internal Audit Strategy and Annual Audit Plan recognise the Council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

6.4 Sustainability Implications:

When carrying out audit work, any sustainability issues identified are reported to the appropriate level of management.

6.5 Crime & Disorder Implications:

When carrying out audit work, any crime and disorder issues identified are reported to the appropriate level of management.

6.6 Risk and Opportunity Management Implications:

An effective Internal Audit service is essential in providing independent assurance over the management of risks.

6.7 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. Conformance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment Summary

Background Documents

1. Accounts & Audit Regulations 2011 (Amended)
2. Public Sector Internal Audit Standards (2013)
3. Local Government Application Note (2013)
4. Internal Audit Strategy and Annual Audit Plan 2014/15
5. Internal Audit Charter
6. Annual Governance Statement 2013/14

Conformance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment Summary

Standards	Assessed Conformance				Opinion	Actions
	Yes	No	Part	N/A		
1) Definition of Internal Audit	3	0	0	0	Full Conformance	
2) Code of Ethics	12	0	0	0	Full Conformance	
3) Attribute Standards						
3.1) Purpose, Authority and Responsibility	23	0	0	0	Full Conformance	
3.2) Independence and Objectivity	32	0	2	0	<p><u>Partial Compliance</u></p> <p>The responsibility for appointing and removing the Head of Audit & Business Risk will remain with the Chief Finance Officer but in consultation with the Chair of the Audit & Standards Committee and Chief Executive, in line with other Authority appointment processes. Budget approval for the service lies with the Full Council.</p>	No further action.
3.3) Proficiency and Due Professional Care	21	0	0	0	Full Conformance	
3.4) Quality assurance and improvement programme	21	0	0	11	All of the issues identified as not being applicable relate to the five year external assessment, its development, undertaking and monitoring.	Five year external assessment planned for 2014/15
4) Performance Standards						

4.1) Managing the internal audit activity	46	0	0	0	Full Conformance	
4.2) Nature of work	31	0	0	0	Full Conformance	
4.3) Engagement planning	49	0	0	0	Full Conformance	
4.4) Performing the engagement	22	0	0	0	Full Conformance	
4.5) Communicating results	55	0	0	0	Full Conformance	
4.6) Monitoring progress	4	0	0	0	Full Conformance	
4.7) Communicating the acceptance of risks	2	0	0	0	Full Conformance	
Totals	321	0	2	11		

