

<b>Subject:</b>	<b>Internal Audit Annual Report 2015/16</b>		
<b>Date of Meeting:</b>	<b>21 June 2016</b>		
<b>Report of:</b>	<b>Executive Director, Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Graham Liddell</b>	<b>Tel:</b> 01273 291323
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The internal audit and corporate fraud annual report sets out the head of internal audit's:
- opinion on the council's control environment
  - summary of the results of audit work for the year
  - assessment of the effectiveness of internal audit against the UK Public Sector Internal Audit Standards.

**2. RECOMMENDATIONS:**

- 2.1 That the Committee considers the internal audit annual report including the head of internal audit's:
- opinion on the council's control environment
  - summary of the results of audit work for the year
  - self-assessment of the effectiveness of internal audit against the UK Public Sector Internal Audit Standards.
- 2.2 That the Committee notes:
- the council's current arrangements for three areas of partial compliance against UK Public Sector Internal Standards
  - the proposals to further strengthen the council's internal audit function
- 2.3 That the Committee considers the implications for the Annual Governance Statement.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The Accounts and Audit Regulations (England) 2015 require local authorities:
- to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes taking into account public sector internal auditing standards or guidance. As part of these requirements the Head of Internal Audit is required to give an opinion on the control environment as part of an annual report.

- to conduct an annual review of the effectiveness of its Internal Audit and have the findings considered by a committee. This can be a self-assessment, provided that an external review is carried out at least every five years. For Brighton & Hove City Council an external review is required by 2018/19.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

4.1 The Head of Internal Audit's opinion is set out in internal audit and corporate fraud annual report (see appendix 1). This states that "reasonable assurance can be provided on the overall effectiveness of the council's control environment for the year ended 31 March 2016, but only limited assurance on the effectiveness of the council's contract management practices and the security over some of the council's information and records".

4.2 This judgment has been informed by:

- controls for core financial systems, governance arrangements and key services that are generally working well
- examples of where contract monitoring needs to improve. In particular, following audit recommendations the council strengthened checks on housing repairs work, the council identified significant overcharging by a particular sub-contractor and is now in process of recovering funds
- the need for improvements in controls to prevent unauthorised access to systems and records, disaster recovery and business continuity

4.3 As set out in the draft Annual Governance Report the council is taking action to address the areas of limited assurance by:

- strengthening governance arrangements relating to contract management to ensure that monitoring arrangements are comprehensive and routinely applied
- more clearly articulating and addressing information risks and addressing weaknesses in controls to prevent access to buildings and systems to staff who no longer work at the council.

4.4 For 2015/16 the annual review of effectiveness review is a self-assessment carried out by the Head of Internal Audit. The service is currently working closely with the internal audit functions of East Sussex County Council and Surrey County Council with a view to forming a joint internal audit service as part of the Orbis shared service. As a result, internal audit is subject to change and an external assessment would be likely to become quickly out of date and not provide value for money. The review was based on a CIPFA checklist of 334 questions designed to assess compliance with Public Sector Internal Audit Standards. It was also informed by the summary of internal audit performance and achievements.

4.5 The internal audit and corporate fraud functions achieved some notable successes including:

- achieving 91% of the audit plan despite delivering the service at 13.5% under budget
- a marked increase in the implementation of audit recommendations to 95% for high priority recommendations and 87% for medium priority recommendations.
- identifying opportunities to secure savings and recover overpayments of £0.9 million
- recovering 26 council properties that were previously rented by ineligible tenants
- positive feedback from internal audit and corporate fraud 'customers'.

4.6 The Head of Internal Audit has concluded that overall the council's internal audit function complies with UK Public Sector Internal Audit Standards.

- Members of the Audit & Standards Committee are consulted as part of the decision to appoint the Head of Audit but the appointment and removal of the Head of Internal Audit is made by the Executive Director of Finance and Resources.
- The Audit & Standards Committee directs the use of resources through the approval of the audit plan but the full Council approves the budget of the service.
- The council is currently developing a structured assurance framework and this is not yet sufficiently developed to inform audit planning.

4.7 The service has implemented its planned areas for improvement in 2015/16 including:

- introducing a new reporting format
- implementing an online system to track recommendations
- greater joint working between IA and Corporate Fraud
- carrying out 'cold' reviews of audit quality
- taking part in anonymous customer feedback surveys

4.8 The key areas for improvement in 2016/17 will be implemented as part of the internal audit and corporate fraud service plan and alongside joint working with East Sussex County Council and Surrey County Council. These comprise:

- developing a richer understanding of customer needs
- supporting the development of a structured assurance framework to help inform audit planning

- ensuring that working with Orbis will enable the council to be provided with an effective and resilient internal audit function (referred to as professional due diligence)
- drive improvement in quality and efficiencies through collaboration with colleagues in Orbis

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The annual report has been prepared by the Head of Internal Audit and informed by audit and corporate fraud work carried out during the year which has included extensive engagement with officers and members.

## **6. CONCLUSION**

- 6.1 The council has an effective internal audit function which has achieved some notable successes in 2015/16. Opportunities to strengthen the function further have been identified and will be implemented as part of the internal audit and corporate fraud service plan and alongside joint working with East Sussex County Council and Surrey County Council.
- 6.2 The Head of Internal Audit has concluded that reasonable assurance can be provided on the overall effectiveness of the council's control environment for the year ended 31 March 2016, but only limited assurance on the effectiveness of the council's contract management practices and the security over some of the council's information and records. The council has set out in the annual governance statement how it plans to address the areas of limited assurance.

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

### Financial Implications:

- 7.1 The Internal Audit & Opinion Annual Report 2015/16 outlines how resources were applied, the internal control recommendations, savings through counter fraud and other issues. The Internal Audit Plan for 2015/16 was delivered within budgetary resources for the year.
- 7.2 The areas for service development within this review can be managed within the budget of the Internal Audit service for 2016/17 and will be delivered alongside joint working with East Sussex County Council and Surrey County Council as part of Orbis.

*Finance Officer Consulted: James Hengeveld*

*Date: 23/05/16*

### Legal Implications:

- 7.3 The statutory provisions are set out in the Accounts and Audit Regulations 2015. These regulations 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: Elizabeth Culbert*

*Date: 23<sup>rd</sup> May 2016*

Equalities Implications:

- 7.4 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.

Sustainability Implications:

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

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Internal audit and corporate fraud Annual Report 2015-16

**Documents in Members' Rooms**

1. None

**Background Documents**

1. None

