

Report to	Audit Committee
Date	5 April 2011
By	Chief Finance Officer
Title of Report	Accounts and Audit Regulations and Review of the Effectiveness of Internal Audit
Purpose of Report	To update the Audit Committee on likely changes to the Accounts and Audit Regulations and the Review of the Effectiveness of Internal Audit

Recommendation: The Committee is recommended to note the likely changes to the Accounts and Audit Regulations and how they will impact on the role of the Committee and key timelines for decisions.

The Committee is asked to note the background information for the Review of the Effectiveness of the Internal Audit and that a further report will be brought to this Committee in June.

1. Introduction

1.1 Communities and Local Government (CLG) is consulting on proposed amendments to the Accounts and Audit Regulations 2003 (as amended 2006). The closing date for consultation was 4th March 2011 and new regulations are expected to be issued before 31st March 2011 in order for them to apply to the 2010/11 financial year. They had not been published at the point at which this report was being finalised and a further update will be provided orally at the meeting.

1.2 The amendments potentially have some important implications for this Audit Committee.

2. Background

2.1 The main amendments to the Accounts and Audit Regulations 2003 put forward by CLG have been summarised by CIPFA (Chartered Institute of Public Finance and Accountancy) as follows:

- The current regulations require local authorities to annually review the effectiveness of its *system of internal audit*. Clarification has previously been sought on the meaning of the term '*system of internal audit*', as opposed to a review of the effectiveness of the internal audit function. CLG now recognises the confusion and proposes to clarify the requirement by requiring an annual review of the effectiveness of internal audit.
- In respect of the approval and publication of the annual accounts, members will not now be required to approve the unaudited accounts by the 30 June. The responsible financial officer will still be required to certify that the accounts are a true and fair view by this date and members will be required to continue to approve the audited accounts by the end of September. This new proposal will bring local authorities in line with the process for approving company accounts. Currently any contravention of the regulations is a criminal offence. The proposal is that none of the regulations should be identified as attracting criminal penalties.

- The statement on internal control is no longer to be published as part of the statement of accounts. The statement on internal control will accompany the published accounts, to make it clear that the statement is not part of the accounts.

- 2.2 A report on the effectiveness of the system of internal audit was due to be brought to this meeting. Instead a brief update is set out in section 3 and a further report will be brought to the June Audit Committee meeting pending the clarification of any amended requirements under the Accounts and Audit Regulations.
- 2.3 It seems likely that the requirement for approval of the accounts by members by 30th June will be amended. The officer timetable will still proceed as originally envisaged and a presentation elsewhere on this agenda will update Members on the key issues for the 2010/11 financial statements. However the financial statements will in this circumstance simply be approved by the Chief Finance Officer prior to submission to the Audit Commission as external auditors. They would then require member approval by 30th September 2011 but only after the external audit work had been completed and Members were able to take an informed view on the financial statements and the judgements being made.
- 2.4 While the consultation on the Accounts and Audit Regulations refers to the “Statement on Internal Control”, that requirement is now met by local authorities through the production of an “Annual Governance Statement” (AGS). It would probably be appropriate for the AGS still to be approved by the Audit Committee by the end of June and there is a report elsewhere on this agenda updating members on progress in its preparation.
- 3. Review of the Effectiveness of (the system of) Internal Audit**
- 3.1 The review of the effectiveness of (the system of) Internal Audit will be conducted in parallel with the work required by Brighton & Hove City Council for their financial statements in order to minimise duplication and cost. This is scheduled to be completed for reporting to the Brighton & Hove City Council Audit Committee at the end of June. SDNPA Audit Committee members asked for this work to be brought forward to April but the uncertainty over the Accounts and Audit Regulations and the merit of dovetailing the work for the two organisations mean that an update rather than a full report has been included on this agenda. This enables the Audit Committee to have an early informed view of any potential issues arising.
- 3.2 An effective Internal Audit service is a key part of the South Downs National Park Authority's (SDNPA) governance arrangements. All local authorities (and thus National Park Authorities) have a statutory requirement to make provision for internal audit, and for the purpose of the regulations, in accordance with proper standards of professional practice, as set out in the CIPFA Code of Practice for Internal Audit in Local Government (2006). The Code comprises 11 standards (or principles), 37 related areas and 106 specific questions to form the basis of assessment.
- 3.3 The assessment made by Brighton & Hove City Council of its system of internal audit for 2009/10 was reported to its Audit Committee in June 2010. The review was conducted jointly with the Internal Audit functions at the London Boroughs of Bromley and Bexley by way of peer challenge and also incorporated the latest CIPFA benchmarking information which is normally released in May of each year for the previous financial year. The detailed findings were that the system of internal audit against the 106 specific questions was:
- Fully Compliant 101 (95%)
 - Partial Compliant 4 (4%)
 - Non Compliant 0 (0%)
 - Not applicable 1 (1%)
- 3.4 As a result the conclusion reached was that while there were some minor areas for improvements, overall the system of internal control was effective. This evaluation does not

directly correlate to a result for SDNPA because there are clearly some organisational and operational differences, however it does give a firm foundation for assessing the risk of non-compliance.

3.5 Similarly the Audit Commission conducted their own assessment against the Code in December 2009, reaching the following conclusions in relation to Brighton & Hove City Council:

- Internal Audit provides an effective service. It has a positive reputation and standing within the Council which allows it to contribute fully to the corporate governance framework.
- Internal Audit has achieved compliance with the CIPFA Code Of Practice
- The work of Internal Audit is properly planned, supervised, reviewed and reported, and our review of specific projects indicates that a good standard is reached. Progress against the audit plan and annual targets is regularly reported to the Audit Committee. Internal Audit is instrumental in aiding the Council to achieve its objectives in terms of governance and particularly in embedding the anti-fraud culture.
- Internal Audit staff have appropriate skills and training to undertake their roles effectively. The function has a strong profile within the Council and a high degree of independence. It is reasonably resourced, using contractors where necessary, and each team member has an Individual Learning and Development Plan which is regularly updated. Staff are aware of their ethical responsibilities and act with due professional care;
- We are able to place reliance on the work of Internal Audit in conducting our own audits subject to sample review annually which is required by the international Standards on audit.
- Internal Audit's relationship with the Audit Commission is well established as it is with other Internal Audit teams in Sussex.

There were no actions arising from the Audit Commission review, for any improvements required.

3.6 The updated review of the effectiveness of internal audit as it directly affects the SDNPA will be completed by the June Audit Committee meeting drawing on the latest peer review and benchmarking data.

4. Resources

4.1 There are no additional resource implications arising directly from this report.

5. Risk Management

5.1 Internal Audit has an important role to play in relation to effective risk management for the organisation.

6. Human Rights, Equalities, Health and Safety

6.1 None.

7. External Consultees

7.1 None.

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Appendices	None
SDNPA Consultees	Chief Executive Officer, Monitoring Officer & Director of Corporate Services.