

Annual internal audit report and opinion

Performance Select Committee 5

Committee:	Performance Select Committee	Agenda Item
		5
Date:	14 June 2006	
Title:	Annual internal audit report and opinion	
Author:	Simon Martin - Audit Partnership Manager	Item for decision

Summary

The purpose of this report is to advise on work carried out by Internal Audit during 2005/06 and provide an overall opinion on the Council's control environment for 2005/06. The report also shows the state of compliance with The Code of Practice for Internal Audit in Local Government (The Code).

Recommendations

That internal audit coverage, the internal audit opinion and compliance with The Code are noted.

Background

Internal Audit is a statutory service that forms part of the Council's corporate governance framework. The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance. It is delivered in partnership with Stevenage Borough Council.

Internal Audit work partly informs the Statement of Internal Control contained in the Council's Statement of Accounts. The requirement for this Statement comes from the Accounts and Audit Regulations 2003. Financial Regulations also state that a report on the work of Internal Audit should be provided for Member information. Good practice suggests Members should seek reassurance from management where any areas of control weakness are identified.

Impact

Communication/Consultation	This report has been circulated to the Executive Management Team
Community Safety	None identified
Equalities	None identified
Finance	None identified
Human Rights	None identified
Legal implications	This report partly informs the Statement of Internal Control. The Statement forms part of the Council's accounts. This is a requirement set out in the Accounts and Audit Regulations 2003.
Ward-specific impacts	None identified
Workforce/Workplace	None identified

Annual internal audit report and opinion

Performance Select Committee 5

Internal audit coverage during 2005/06

The following internal audits were carried out during 2005/06 (number of recommendations shown in brackets):

Key Financial Systems

- Cash & Income (1)
- Creditors & VAT (8)
- Payroll (8)
- Housing Benefits (6)
- Council Tax (0)
- Business Rates (1)
- Housing Rents (3)
- Sundry Debtors (11)

Other Systems

- Data protection (5)
- Benefit fraud (4)
- Community safety (2)
- House sales (2)
- Public health (5)
- Renovation grants (3)
- Personnel (6)
- Grants (7)
- Plant utilisation (1)
- Land & property mgmt (5)
- Saffron Walden museum (10)
- Final account audit (0)
- IT audit (3)
- Stores (0)

Each of the above audits resulted in a written report to management. In total 91 recommendations were made to improve the Council's control environment. This contrasts with 98 in 2004/05. This number has a direct relationship with the number of internal audits carried out in any year. 22 audits were carried out during 2005/06 and 20 audits during 2004/05. The Council's Intranet is being populated with the above reports so that Members have access to them.

Annual audit opinion

Audit opinion on the Council's control environment is broadly classified into one of the following four categories:

- i) Well controlled;
- ii) Adequately controlled;
- iii) Inadequately controlled;
- iv) Uncontrolled.

Approximately 82% of recommendations arising from our 2005/06 audit work were assessed as being of medium or low significance. This means that key controls mostly exist but there may be some inconsistency in application. Our audit opinion on the control environment for 2005/06 is therefore that risks identified by Internal Audit are *adequately controlled*.

We were however concerned that the risk of error or loss was not always as well controlled in some areas that we reviewed. These were:

- Some Data Protection arrangements
- Payroll management
- Sundry debtor administration
- Some personnel policy and control
- Saffron Walden Museum volunteer management and income control
- Land & property management

In the above areas we have reported that there is a higher likelihood of potentially significant error or loss. This could ultimately lead to objectives not being met or damage to the Council's reputation.

Annual internal audit report and opinion

Performance Select Committee 5

Implications

To stimulate improvement and reduce the likelihood of error or loss, management have a responsibility for ensuring the recommendations contained within Internal Audit reports are implemented. To this end management action plans need to be completed and returned in good time and agreed recommendations need to be implemented in a timely way.

Audits are followed up between six months and one year after the audit has taken place. The protocols that exist within management arrangements to escalate any instances of non-compliance are being reviewed in order to ensure that all significant issues raised are promptly addressed.

Compliance with The Code of Practice

The Code of Practice (The Code) sets out organisational and operational standards for internal audit in Local Government. A general position statement on compliance with each of these is set out below:

1. *Scope of internal audit* – the terms of reference, scope of work and responsibilities are set out in an approved Service Plan. An Audit Charter was introduced during 2004.
2. *Independence* – organisational status enables Internal Audit to function effectively. The Audit Partnership Manager has the structural status that complies with The Code of Practice and effective discussion of audit issues is facilitated. The independence of individual auditors is characterised by not having any operational responsibility.
3. *Audit committees or equivalent* – there are specific mechanisms for reporting to members at overview level. A Performance Select Committee containing the features of an audit committee was introduced during 2005/06.
4. *Relationship with management, other auditors and other review bodies* – the Council seeks to co-ordinate Internal Audit work with that of other review agencies. External audit relies on the work of Internal Audit for assurance purposes. Liaison meetings are held with external audit.
5. *Staff training and development* – Internal Audit is appropriately staffed in terms of numbers, qualification levels and experience, having regard to its objectives and to The Code.
6. *Audit strategy* – a strategy is maintained for delivering the Internal Audit service as per the terms of reference.
7. *Management of audit assignments* – assignments are prepared, discussed and agreed with line managers. A risk-based, systematic approach is undertaken. Assignments are recorded and there are standards for documentation and working papers.
8. *Due professional care* – is appropriate to the objectives, complexity, nature and materiality of the audit being carried out. Care is ultimately achieved by adherence to The Code and quality assurance.
9. *Reporting* – audit assignments and their results are reported to those charged with governance and any third parties. The performance of the Internal Audit function against plan is reported to the Stevenage & Uttlesford Audit Partnership Board. Performance during 2005/06 was satisfactory.
10. *Quality assurance* – the work of Internal Audit is controlled at each level of operation. The management of Internal Audit is effectively controlled through a service plan,

Annual internal audit report and opinion

Performance Select Committee 5

audit manual, staff appraisals, performance measures and indicators. Internal Audit is subject to regular quality review by External Audit.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
No internal audit assurance is provided to those charged with governance.	Low	High.	The Audit Commission review the outcome of Internal Audit work. The performance of the Internal Audit Section is monitored by senior management and Members.
Failure to comply with The Code of Audit Practice.	Low.	Medium.	The Code of Audit Practice is reviewed annually by the Audit Partnership Manager. Any gaps in compliance are identified and reported to the Executive Manager (Corporate Governance) and the Executive Manager (Finance & Asset Strategy).
Those charged with governance do not respond to Internal Audit recommendations.	Low.	Medium.	There is an escalation procedure. The Audit Commission review the outcome of Internal Audit work.