

**Committee:** Performance Select Committee  
**Date:** 12 June 2007  
**Title:** Annual internal audit report and opinion

**Agenda Item**

**10**

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Item for  
Decision

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### Summary

The purpose of this report is to advise on work carried out by Internal Audit during 2006/07 and provide an overall opinion on the Council's control environment for 2006/07. 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 Papers

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. The internal audit coverage for 2006-07 was delivered in partnership with Stevenage Borough Council. Formal notice has now been given to Stevenage Borough Council of the Council's provisional intention to dissolve the partnership pursuant to the resolution of Full Council on 17 April 2007.

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 Strategic Management Board and the Heads of Divisions
Community Safety	None identified
Equalities	None identified
Finance	None identified
Human Rights	None identified

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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.
Sustainability	None identified
Ward-specific impacts	None identified
Workforce/Workplace	None identified

## Situation

### Internal audit coverage during 2006/07

The following internal audits were carried out during 2006/07 (number of recommendations shown in brackets):

#### Key Financial Systems

- Creditors & VAT (11)
- Payroll (6)
- Treasury Management (0)
- Insurance (8)
- Housing Benefits (4)
- Council Tax (1)
- Business Rates (1)
- Housing Rents (2)
- Sundry Debtors (7)

#### Other Systems

- Local Land Charges (2)
- Members' Allowances (4)
- Licensing (4)
- Housing Allocations (1)
- Response Maintenance (8)
- Building Control Fees (2)
- Leisure – Client side (6)
- Car Parking (5)
- Cemetery (1)

2006/07 audits in progress

- Cash
- Development Control
- Utility Payments
- Refuse & Recycling
- Emergency Planning

Each of the above audits resulted in a written report to management. Completion of our 2006-07 has been delayed due to long term sickness absence and we aim to complete all outstanding 2006-07 audits by 30 June 2007.

To date 73 recommendations have been made to improve the Council's control environment, this is in contrast with 91 in 2005/06. This number of recommendations made has a direct relationship with the number of internal audits carried out in any year, 19 audits completed to date during 2006/07 compare to 22 audits carried out during 2005/06.

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;

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

Approximately 68% of recommendations arising from our 2006/07 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 2006/07 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:

- Response Maintenance stock and purchasing control
- Leisure (client side) contingency / succession planning
- Creditors and VAT management and contingency / succession planning
- Payroll, Allowances & Expenses – contingency / succession planning
- Sundry Debtors 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, to help address this all internal audit reports with recommendations falling within this category are copied to the Chief Executive, Director of Resources and Assistant Chief Executive and raised with Senior Management.

### 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 we endeavour to obtain agreement on recommendations in Management Action Plans for issue with the Final Reports where possible or, if this is not immediately possible, for Management Action Plans to be completed and returned in good time. In both cases 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 introduced during 2004 is currently under review.
2. *Independence* – organisational status enables Internal Audit to function effectively. The Audit 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 currently under staffed in terms of numbers. This is being addressed in the short term, Staff have appropriate qualifications 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 Performance Select Committee.
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, 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 for Uttlesford District Council as an Annual Audit Plan is agreed at SMB level and approved/scrutinised by the Performance Select Committee.	High for all Authorities where significant risk may occur affecting the Council's Corporate Governance with regards to reputation, financial, regulatory, operation process and management information.	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 – Training provided and members of	Medium – Unable to provide	The Code of Audit Practice is reviewed annually by the Audit Manager.

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	staff complies with the Code of Audit Practice in the discharge of their duties.	Independence and Objectivity within the scope of audit.	Any gaps in compliance are identified and reported to the Assistant Chief Executive and the Director of Resources.
Those charged with governance do not respond to Internal Audit recommendations.	Low – Management Action Plans is embedded in the management process.	Medium – Council’s integrity and ethical values is not in keeping with what is required to achieve the objectives of internal control and its goals.	There is an escalation procedure. The outcome of Internal Audit work is reviewed by the Audit Commission and by the Performance Select Committee.