

Committee:	Performance Select Committee	Agenda Item
Date:	24 June 2008	6
Title:	Internal Audit Annual Report and Opinion	
Author:	Sheila Bronson – Audit Manager ext 610	Item for Decision

Summary

The purpose of this report is to advise on work carried out by Internal Audit during 2007/08 and provide an overall opinion on the Council’s control environment for 2007/08. 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

None

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
Legal implications	This report partly informs the Annual Governance Statement incorporating 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 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.
Sustainability	None identified
Ward-specific impacts	None identified

Workforce/Workplace	None identified
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Situation

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. In April 2007 formal notice was given to Stevenage Borough Council of the Council's intention to dissolve the Stevenage and Uttlesford Audit Partnership with Uttlesford taking back sole responsibility for internal audit within the Council. The internal audit coverage for 2007/08 was delivered by the Council's in-house Internal Audit Team.

Internal Audit work partly informs the Annual Governance Statement which incorporates Statement of Internal Control contained in the Council's Statement of Accounts. The requirement for this statement comes from Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.

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.

The Internal Audit Team

At 01 April 2007, the Internal Audit team comprised of:

- 1 Senior Auditor, appointed acting Audit Manager May 2007, assimilated as Audit Manager February 2008
- 1 Internal Auditor, temporary appointment made permanent November 2007
- 1 Internal Auditor, rejoined team July 2008 following a period of secondment

Internal audit coverage during 2007/08

The first quarter of 2007/08 was committed to the completion of the 2006/07 audit plan which had been delayed due to long term sickness absence. All 12 of the outstanding 2006/07 audits were completed by 30 June 2007.

As part of the 2007/08 Internal Audit plan the following 21 audits were completed to draft report stage by 30 April 2008. All of the five audits awaiting final completion at year end will be completed by 30 June 2008. Each completed audit resulted in a written report to management including recommendations for improvement to controls and the agreement of a Management Action plan for implementation of the recommendations. The Council's Intranet is being populated with the above reports so that Members have access to them

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Key Financial Systems

Audit and recommendations made

Creditors & VAT	7
Housing Benefits	6
Business Rates	5
Customer Service Centre	3
Payroll, Allowances & Expenses	3
Treasury Management	3
Debtors	2
Council Tax	1
Rents	1

Other Systems

Audit and recommendations made

Public Health	14
Emergency Planning	13
Elderly Persons	9
Human Resources	9
Benefit Fraud	5
Conservation & Enhancement	4
Electoral Registration	4
Grounds Maintenance	4
Homelessness	3
IT audit	3
Septic Tank Emptying	3
BVPI audit	0

The Internal Audit Annual plan is subject to review throughout the year. In addition to the above audits there were a further 7 audits originally planned for 2007/08 but subsequently removed from the plan for the reasons given:

Contract audit	Lack of Auditee resource prevented progress with this audit, rescheduled as Corporate Audit 2008/09 Audit Plan, quarter 2
Procurement	Lack of Auditee resource prevented progress with this audit, rescheduled as Corporate Audit 2008/09 Audit Plan, quarter 2
Information management	Lack of Auditee resource prevented progress with this audit, rescheduled as Corporate Audit 2008/09 Audit Plan, quarter 1
Asset Management	Lack of Auditee resource prevented progress with this audit, rescheduled as Corporate Audit 2008/09 Audit Plan, quarter 4
Enforcement	Removed from plan following restructure January 2008, rescheduled as Operational audit 2009/10 but may be brought forward to 2008/09 if available audit time allows
Community safety	Lack of Auditee resource prevented progress with this audit, rescheduled as Operational Audit 2010/11 Audit Plan
Economic Development	Removed from plan following restructure January 2008

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From the 21 audits in the 2007/08 audit plan, 102 recommendations have been made to improve the Council's control environment. This is in contrast with 75 recommendations made in the 22 audits completed from the 2006/07 audit plan, representing a 36% increase in the number of recommendations made. Further analysis has identified this as a 54% increase in the number of high risk recommendations made, although the majority of these (26 out of 37) related to just 4 of the 21 audits as detailed below.

Annual audit opinion

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

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

Approximately 64% of recommendations arising from our 2007/08 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 2007/08 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:

Public Health – IT and staffing issues
(7 high risk and 7 medium risk recommendations)

Emergency Planning – Business Impact Analysis review and Business
Continuity and Disaster planning updates
(6 high risk, 6 medium risk and 1 low risk recommendations)

Elderly Persons – Financial Controls
(9 high risk and 2 medium risk recommendations)

Creditors and VAT - re-iteration of 2006/07 recommendations
(6 high risk and 1 low risk recommendations)

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, Section 151 Officer 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. The Internal Audit Charter introduced during 2004 was reviewed and an updated version was agreed in December 2007. This charter will be reviewed in 2008/09 to reflect recommendations arising from the Audit Commission review of Internal Audit currently being carried out.
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. Regular Liaison meetings are held with external audit.
5. *Staff training and development* – Internal Audit is now fully staffed in terms of numbers. Staff have or are working towards 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
<p>No internal audit assurance is provided to those charged with governance.</p>	<p>1 = Little or no likelihood</p> <p>Internal Audit function is an integral part of the Council</p> <p>Annual Audit Plan is agreed at SMB level and approved/scrutinised by the Performance Select Committee.</p>	<p>3 = Significant impact – action required</p> <p>Statutory requirement, adverse Audit Commission Report</p>	<p>The Audit Commission review the outcome of Internal Audit work.</p> <p>The performance of the Internal Audit Section is monitored by senior management and Members.</p>
<p>Failure to comply with The Code of Audit Practice.</p>	<p>1 = Little or no likelihood</p> <p>Training provided and members of staff complies with the Code of Audit Practice in the discharge of their duties.</p>	<p>3 = Significant impact – action required</p> <p>Unable to provide Independence and Objectivity within the scope of audit.</p>	<p>The Code of Audit Practice is reviewed annually by the Audit Manager.</p> <p>Any gaps in compliance are identified and reported to the Assistant Chief Executive and the Director of Resources.</p>
<p>Those charged with governance do not respond to Internal Audit recommendations.</p>	<p>1 = Little or no likelihood</p> <p>Management Action Plans is embedded in the management process.</p>	<p>3 = Significant impact – action required</p> <p>Council's integrity and ethical values is not in keeping with what is required to achieve the objectives of internal control and its goals.</p>	<p>There is an escalation procedure.</p> <p>The outcome of Internal Audit work is reviewed by the Audit Commission and by the Performance Select Committee.</p>