

**Committee:** Scrutiny 2  
**Date:** 12 October 2005  
**Title:** ANNUAL INTERNAL AUDIT REPORT  
2004/05  
**Author:** Simon Martin (01799) 510422

**Agenda Item**

**6**

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## Summary

The purpose of this report is to:

- a) Highlight work completed by Internal Audit during 2004/05
- b) State the level of compliance with The Code of Practice for Internal Audit in Local Government (The Code of Practice) during 2004/05.
- c) Provide an internal audit opinion for 2004/05

## Recommendation

Members note the report content.

## Background

Internal Audit is a statutory service forming 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.

Subject to compliance with The Code of Practice, Internal Audit can provide assurance across the whole range of Council functions on a cyclical basis. Internal Audit work consequently 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.

## Internal audit coverage during 2004/05

Twenty audits were carried out during 2004/05, all of which resulted in a written report to management. In total 98 recommendations were agreed to improve the Council's control environment. This equates to 4.9 per audit. This number contrasts with 4.3 recommendations per audit for 2003/04, 3.7 for 2002/03 and 2.6 for 2001/02. It should be noted that there are various factors that could influence the number of recommendation during any one year.

The following internal audits were carried out during 2004/05. The number of recommendations included in each report is shown in brackets:

Scrutiny 2

Key Financial Systems

Cash (3)  
Creditor Payments (3)  
Payroll (1)  
Housing Rents (3)  
Business Rates (2)  
Council Tax (4)  
Miscellaneous Debts (6)  
Housing Benefits (6)

Others Systems

Local Land Charges (1)  
Building Cleaning (12)  
Emergency Planning (12)  
Concessionary Fares (7)  
Youth & Arts (4)  
Leisure (5)  
Car Parking (5)  
Refuse & Recycling (11)  
Housing Allocations (2)  
Utility Payments (1)  
Internet & Email (6)  
Contract Systems (4)

In addition to the above work approximately 33 days was spent on giving proactive audit related advice and assistance.

**Compliance with the Code of Practice**

The Code of Practice sets out organisational and operational standards for internal audit in Local Government. A general position statement on the level of 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 limited mechanisms for reporting to Members.
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.
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. Staff grades were appropriate during 2004/05.
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.

Scrutiny 2

- 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. The performance of the Internal Audit function is reported to the Stevenage & Uttlesford Audit Partnership Board. Performance during 2004/05 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, audit manual, staff appraisals, performance measures and indicators. The recently introduced Audit Charter sets out the strategic framework for internal audit provision. Internal Audit is subject to regular quality review by external audit.

**Annual audit opinion**

Audit opinion can broadly fall into one of the following four categories:

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

The Council did not fully implement a corporate risk management system during 2004/05. However, our audit opinion for 2004/05 is that risks identified and evaluated by Internal Audit were *adequately controlled*. This means that key controls usually exist, and although there may be some inconsistency in application, they were operating mostly effectively, and objectives were mostly achieved. However, we note that the average number of recommendations made at each audit has increased during 2004/05.

**Implications**

To reduce the residual risk of error or loss, management need to implement the recommendations contained within internal audit reports. To this end management action plans need to be completed and returned, and agreed recommendations need to be implemented in a timely way. There were protocols with management to make sure that this happens and these have been effective during 2004/05.

**Background Papers**

None

**Impact**

Communication/Consultation	There are no specific issues in this report
Community Safety	There are no specific issues in this report

Scrutiny 2

Equalities	There are no specific issues in this report
Finance	There are no specific issues in this report
Human Rights	There are no specific issues in this report
Legal implications	There are no specific issues in this report
Ward-specific impacts	There are no specific issues in this report
Workforce/Workplace	There are no specific issues in this report

**Risk Analysis**

Risk	Likelihood	Impact	Mitigating actions
Management do not implement recommendations contained in internal audit reports	Low	Medium	Completion of management action plans and implementation of recommendations are tracked and followed up on a cyclical basis