

Meeting: Audit Committee

Portfolio Area: Resources

Date: 30 May 2006

ANNUAL INTERNAL AUDIT REPORT 2005/06

NON-KEY DECISION

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1 PURPOSE

To report on work completed by Internal Audit during 2005/06 and to provide an audit opinion on the Council's internal control environment for 2005/06. To report on the state of compliance with The Code of Practice for Internal Audit in Local Government (The Code).

2 RECOMMENDATIONS

That internal audit coverage, the internal audit opinion for 2005/06 and compliance with The Code are noted.

3 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 Uttlesford District 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.

4 INTERNAL AUDIT COVERAGE DURING 2005/06

The following internal audits were carried out during 2005/06:

<u>Key Financial Systems</u>	<u>Other Systems</u>	
• Cash & Income	• Insurance	• Indoor/Outdoor Markets
• Creditors & VAT	• Officer Expenses	• Right to Buy
• Salaries & Wages	• Land & Property Management	• Cemeteries
• Housing Benefits	• Members Allowances	• Grants to Voluntary Bodies
• Council Tax	• IT Change Control	• Current Contracts
• Main Accounting	• Recycling	• Best Value Performance Indicators
• Business Rates	• Car Park Revenue	• EU Funding
• Housing Rents	• Improvement Grants	
• Sundry Debtors		

Each of the above audits resulted in a written report to management. In total 222 recommendations were made to improve the Council's control environment. This contrasts with 126 in 2004/05 and 176 in 2003/04. This number has a direct relationship with the number of internal audits carried out in any year. 24 audits were carried out during 2005/06, 18 audits during 2004/05 and 21 during 2003/04. The increase in the total number of recommendations in 2005/06 is mostly because of the number of recommendations made in some of the audits listed in paragraph 5 below.

In addition to the above, 78 days were spent on giving proactive audit related advice and assistance. Approximately 45 days were also spent on non-audit work consisting of procurement support, contract administration and the Statement of Accounts.

5 ANNUAL AUDIT OPINION

Audit opinion is broadly classified into one of the following four categories:

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

More than 83% of recommendations arising from the 2005/06 audit plan were assessed as being of medium or low significance, which means that key controls mostly exist but there may be some inconsistency in application. Our audit opinion for 2005/06 is therefore that risks identified by Internal Audit are largely *adequately controlled*.

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

- Some post opening arrangements.
- Use of pro-forma invoices.
- Review of Council tax discounts/exemptions.
- Bank reconciliation.
- Clearance of some suspense accounts.
- Sundry debtor administration.
- Petty cash claims.
- Corporate credit card administration.
- Car park revenue control.
- Some Benefit administration arrangements.

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 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.

6 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 Manager does not have structural status that complies with The Code (he reports to a lower organisational level than the corporate management team), but effective discussion of audit issues is still facilitated with Officers at this level. The independence of individual auditors is characterised by not having any operational responsibility for the areas audited.
3. *Audit committees or equivalent* – there are specific mechanisms for reporting to members at overview level. An audit committee is being introduced during 2006/07.
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. However, during 2005/06 it has been necessary to rely extensively on contract staff to cover absences.
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 largely satisfactory. There are also quarterly meetings between the Assistant Chief Executive (Finance), Head of Finance and Audit Partnership Manager to discuss key audit issues and or reported control weaknesses.
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.

BACKGROUND DOCUMENTS

- None

APPENDICES

- None