

Meeting: **Audit Committee**

Portfolio Area: Resources

Date: **26th June 2007**

ANNUAL INTERNAL AUDIT REPORT 2006/07

NON-KEY DECISION

Author – Simon Martin Ext.No. 2426
Lead Officer – Pauline Coletta Ext.No. 2933
Contact Officer – Simon Martin Ext.No. 2426

1 PURPOSE

To report on work completed by Internal Audit during 2006/07 and to provide an audit opinion on the Council's internal control environment for 2006/07.

2 RECOMMENDATIONS

That internal audit coverage and the internal audit opinion for 2006/07 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.

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 2006/07

The following internal audits were carried out:

- Cash & Income
- Creditors & VAT
- Payroll
- Housing Benefits
- Council Tax
- Main Accounting
- Business Rates
- Housing Rents
- Sundry Debtors
- Performance Indicators
- Benefit Fraud
- Contract Management
- Information Management
- Licensing
- Rechargeable Works
- Vehicles & Plant
- Car Loans
- Development Control
- Environmental Health
- Land Charges
- Treasury Management
- Energy

Each of the above audits resulted in a written report to management. A management action plan is also completed and agreed to address any identified control weaknesses. A number of these reports have been presented to and discussed by the Audit Committee during meetings throughout the past year.

A number of internal audits included in the Internal Audit Plan for 2006/07 have not been carried out because the Section has been reliant upon some agency staff for much of the year. Staff also gave priority to referrals made in accordance with the Council's Fraud, Corruption and Theft Policy. The audits not carried out are:

- Community Transport/Concessionary Fares
- Services for Elderly People
- Waste Management
- Environmental Services
- An IT Audit
- Leisure

This was reported to, and agreed by, the Council's Strategic Management Board. The above audits are now scheduled to be carried out in 2008/09 or 2009/10. They will however be carried out in advance of these dates if circumstances dictate the need for an earlier audit review. In addition to the above, 64 days were spent on giving proactive audit related advice and assistance. Approximately 29 days were also spent on non-audit work consisting of procurement support and contract administration. The overall outturn position in summary form is set out below:

Activity	Planned days 2006/07	Actual days 2006/07
Audit of financial systems	147	179
Audit of operational systems	337	241
Residual 05/06 Audits	0	69
Audit of I.T systems	30	15
BVPI health check	20	20
Audit related advice & assistance	70	64
Audit of contracts	45	24
Fraud, Corruption or Theft referrals	50	59
Audit Committee & Ethics and Probity Course	0	10
Chargeable consultancy to Harlow District Council	0	5
Non-audit work	30	29
Audit follow up work	30	13
	759	728

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 84% of recommendations arising from 2006/07 audits were assessed as being of medium or low significance, which broadly means that key controls largely exist but there may be some inconsistency with compliance. The Internal Audit opinion for 2006/07 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 were:

- Contract Management (specifying, financing, procuring and managing planned and response maintenance works, mostly in respect of the Council's housing stock pre Stevenage Homes Ltd).

- Car Loans (eligibility, administering, calculating and repaying loans where Officers have access to the Council's car loan scheme).
- Rechargeable Works (liability, billing, collection and recovery of charges from tenants and or leaseholders, mostly in respect of repairs, maintenance and shared costs in the Council's housing stock)
- Car Park Revenue (collection, reconciliation, banking and record keeping associated with fees and charges from the Council's off street parking facilities).

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.

Completed audits are followed up after due dates have passed. 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. Previous Annual Internal Audit reports have included a general position statement on compliance with The Code. However, in accordance with amendments to the Accounts & Audit Regulations, there is now a separate report on this Agenda addressing the new requirement to consider the effectiveness of Internal Audit during 2006/07. Consideration of compliance with The Code has appropriately been transferred into the Effectiveness Report.

BACKGROUND DOCUMENTS

- None

APPENDICES

- None