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**REPORT TO** Council Resources Commission

**DATE:** 12 December 2005

**DEPARTMENT:** Department of Resources

**REPORTING OFFICER:** Audit Manager  
(*Martin Helm*)

**SUBJECT:** **INTERNAL AUDIT  
PROGRESS REPORT**

**WARDS AFFECTED:** None

**FORWARD PLAN REF:** N/A

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**1.0 PURPOSE OF REPORT**

1.1 This report sets out the findings and conclusions from a recent in-depth review of Internal Audit by the Council's external auditors, the Audit Commission. It also identifies the progress made by Internal Audit in the first half of the year against its 2005/06 Annual Plan.

**2.0 RECOMMENDATIONS**

2.1 That the findings of the Audit Commission's report on the performance of Internal Audit and the progress on implementing the actions arising be noted.

2.2 That the progress made by Internal Audit during the first six months of 2005/06 in undertaking its Annual Plan for the year be noted.

**3.0 AUDIT COMMISSION REPORT – COMPLIANCE WITH THE CODE OF PRACTICE FOR INTERNAL AUDIT**

3.1 In August, the Audit Commission completed their independent assessment on how far Internal Audit meets the Code of Practice for Internal Audit for Local Authorities in the United Kingdom. The main conclusion was that Internal Audit provides an effective service and overall, complies with the standards set out in the Code.

3.2 The Code contains ten standards. The Commission found that Internal Audit meets seven of these and "mostly" meets the remaining three. Appendix A, taken from the Commission's report, identifies for each standard whether this has been met.

- 3.3 The Commission's report contained fifteen recommendations to support the main conclusions. Ten of these were either in hand or had already been identified at the time the report was produced. Actions and a timetable have been agreed with the Commission to implement the remaining five.
- 3.4 The key action is to undertake a revised full audit needs assessment by March 2006. This is in the light of the implementation of a number of new systems across the Council (FMS, CRM, and payroll for example) and to take on board the outcomes of current updating of the Council's corporate and departmental risk registers.
- 3.5 Most of the remaining actions refer to the update of sections of Internal Audit's own Audit Manual and to the provision of information on Internal Audit performance to the Resources Commission.
- 3.6 Appendix B to the report sets out the Audit Commission's recommendations and the actions, either in hand or proposed, to implement these.

#### **4.0 INTERNAL AUDIT ACTION PLAN 2005/06**

- 4.1 The schedule attached at Appendix C compares the half year position to the Annual Plan for 2005/06 for the various types of audit work. The schedule also summarises the audit findings and conclusions where appropriate.
- 4.2 The key conclusion is that at the half year stage Internal Audit is on target to complete the vast majority of the Plan by 31 March 2006. This is also after allowing for a number of special investigations. The risk is that if there is a need to undertake any new major investigations in the second half year, in addition to those currently ongoing, this will mean that some planned audit work will have to be deferred.
- 4.3 In general, there are three key areas of work for the second half year. The first is the completion of the major financial systems audits. Under the managed audit approach, the District Auditor places reliance on this work in order to give his annual opinion on the Council's accounts and financial systems. If either Internal Audit did not do this work or it did not meet the required professional standards in undertaking it, the Audit Commission would have to do this work at an additional cost to the Council. The second area is work to support the new computer systems which are to go live early next financial year (FMS and CRM). In particular, this will require giving advice to enable the new systems to work efficiently and effectively, but at the same time to incorporate necessary controls to mitigate risks. The third area is a review of the Council's corporate governance arrangements in liaison with the Department of Corporate Policy and Improvement.

4.4 The major risk is a lack of experienced auditors. Under the corporate restructure, a senior auditor was transferred to the Department of Corporate Policy and Improvement with effect from 1 April 2005, and is not being replaced. Also, one auditor is currently on maternity leave and another member of the Team is due to start her maternity leave in February 2006. Temporary arrangements were put in hand to cover the first maternity leave but they did not come to fruition. Arrangements are being made to provide cover from February. The impact is that resources are stretched. If there is a need to undertake a further special investigation, then planned work will have to be deferred.

**Background Papers:**

**OFFICER CONTACT:** Please contact Martin Helm if you require any further information on the contents of this report. The officer can be contacted at Crescent Gardens, Harrogate HG1 2SG by telephone on 01423 556114 or by email martin.helm@harrogate.gov.uk

**SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS**

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity		✓	
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications			
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.

