



Audit and Risk Committee

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Internal Audit Annual Report 2024/25

Report by:

Audit Services Manager

Officer Contact:

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Purpose

This report summarises the work that Internal Audit has undertaken during the financial year 2024/25, identifies the key themes that we have identified across the Council and also highlights how responsive management have been in implementing recommendations.

Recommendations

Committee are requested to note the content of the 2024/25 Annual Report, including the Annual Opinion and the basis on which this opinion is based.

1. Introduction

- 1.1. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that support the delivery of the Council's strategy.
- 1.2. The Internal Audit Annual Plan for 2024/25 was approved by Audit and Risk Committee in March 2024. This report summarises the work that Internal Audit has undertaken during the financial year 2024/25, identifies the key themes that we have identified across the Council and also highlights how responsive management have been in implementing recommendations.

- 1.3. Internal Audit Standards require that the Audit Services Manager provides a conclusion at organisation level about the effectiveness of governance, risk management, and/or control processes. Such a conclusion should reflect the professional judgment of the Audit Services Manager based on multiple engagements and must be supported by relevant, reliable, and sufficient information as set out in this report.

2. Conclusion

The Internal Audit Annual Report 2024/25 is attached for Audit & Risk Committee to note.

List of appendices: Internal Audit Annual Report 2024/25

Background papers: None

Corporate Implications

Legal/Constitutional: The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015). Chelmsford City Council's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements.

Financial: Failure to have appropriate risk management arrangements puts the Council financial management in a weakened position and therefore increases the risk of failing to deliver Our Chelmsford Our Plan

Potential impact on climate change and the environment: None

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Risk Committee, management and outside parties (e.g. External Audit) on the adequacy and effectiveness of governance, risk management, and control process for Chelmsford City Council.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: Management Team received the Internal Audit Annual Report in May 2025.

Relevant Policies and Strategies: None

Internal Audit Annual Report 2024-25

1. Introduction

1.1. Purpose of this report

- 1.1.1. This report summarises the work that Internal Audit has undertaken during the financial year 2024/25 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment, risk management and governance arrangements across the Council.

1.2. The Role of Internal Audit

- 1.2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The purpose of Chelmsford City Council's Internal Audit section is to provide independent, objective assurance and consulting services to the Council (via the Audit & Risk Committee, Chief Executive, Section 151 Officer, External Audit and senior managers), relating to these arrangements, which are designed to add value and improve the Council's operations. The Council's response to Internal Audit activity should lead to the strengthening of the control environment.
- 1.2.2. Each year, we seek to adapt and enhance our audit approach in order to take in to account the Council's risk profile and changes in the system of internal control. This ensures that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, External Audit.
- 1.2.3. Internal Audit remains free from all conditions that threaten the ability of the Council's Internal Auditors to carry out their responsibilities in an unbiased manner, including matter of audit selection, scope, procedures, frequency, timing and report content. If the Audit Services Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. This has not arisen for 2024/25. The Council's Internal Auditors also maintain an unbiased mental attitude that allows them to perform engagements objectively. Internal Auditors have had no direct operational responsibility or authority over any of the activities audited.

- 1.2.4. Our Internal Audit Charter was presented to Senior Management and Audit & Risk Committee in March 2025 and will continue to be updated and appended to the Internal Audit Plan each year.

1.3. Overview of the Internal Audit Approach

- 1.3.1. Internal Audit Standards require that the Audit Services Manager provides a conclusion at organisation level about the effectiveness of governance, risk management, and/or control processes. Such a conclusion should reflect the professional judgment of the Audit Services Manager based on multiple engagements and must be supported by relevant, reliable, and sufficient information.
- 1.3.2. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit & Risk Committee, which should provide a reasonable level of assurance, subject to the inherent limitations set out in Appendix C. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 1.3.3. Internal audit work was performed in accordance with the Council's Internal Audit methodology which is in conformance with Public Sector Internal Audit Standards, as supported by the External Quality Assessment (EQA) in December 2024.
- 1.3.4. The audit plan for 2024/25 was approved by Audit and Risk Committee in March 2024. Internal Audit Team resource comprised of the Audit Services Manager and 1.5 FTE Senior Auditors during 2024/25.

2. Internal Audit Opinion

- 2.1. Internal Audit is satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.
- 2.2. In assessing the level of assurance to be given, the following has been considered:
- All audits undertaken in the year
 - Any follow up action taken in respects of audits from previous periods
 - The effects of any significant changes in the Council's systems or objectives
 - Any limitations which may have been placed on the scope of internal audit
 - The extent to which resource constraints may impact on the Audit Service's Manager ability to meet the needs of the organisation
 - The results of work performed by other assurance providers, such as External Audit.

OVERALL OPINION

Moderate Assurance – overall the Council’s systems for control, risk and governance are generally adequate with some improvement required to address areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk. Please see our Summary of Findings in Section 4.

Internal Audit reached this conclusion because medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific system or processes, and none of the individual assignment reports have an overall classification of critical risk and/or no assurance. This opinion has been derived from consideration of the detail below. An explanation of the types of opinion that may be given can be found in Appendix A.

3. Other Sources of Assurance

3.1. Risk Management Framework

The Council’s Risk Management Strategy recognises that risk management is an integral part of Council activities. Central to the risk framework is the identification and management of the Council’s Principal Risks, aligned to Our Chelmsford, Our Plan objectives, each assigned to a Directorate lead. Reporting to Management Team and Audit and Risk Committee ensures arrangements are working effectively.

Risk consequence criteria have been aligned with Internal Audit to ensure that management and Services receive broadly consistent messages to enable them to prioritise their risks. Internal Audit also use the Principal Risk Register, the Fraud Risk Register and other risks identified through the risk management framework, to inform the annual risk-based Internal Audit plan and to inform audit planning for individual audit assignments.

3.2. Internal Audit View on Managing the Risk of Fraud

In line with best practice, CIPFA’s guidance on Managing the Risk of Fraud and Fighting Fraud and Corruption Locally, the Council’s Counter Fraud Strategy encompasses key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.

Actions required to deliver and implement the Strategy are set out in a corresponding action plan. Key activities in 2024/25 included the roll out of guidance, training and awareness across the Council and complying with NFI and Transparency Code requirements.

The risk of fraud is monitored via the Council’s Principal Risk Register. Other processes which assist Internal Audit in detecting potential fraudulent activity include:

- One of the criteria assessed when producing the risk-based annual audit plan is the risk of fraud as per the Council’s Fraud Risk Register. In addition, all individual reviews are assessed and aligned to the Council’s Fraud Risk Register.
- Data Analytics have been used by Internal Audit since 2024 in their reviews of Accounts Payable and Payroll to detect any anomalies, with a specific focus on anti-fraud tests.
- Reviews of Council processes/walk throughs etc should highlight any gaps in control and areas that are vulnerable to fraudulent activity.

Additionally, where concerns of fraud have been highlighted, investigations are carried out and review of the control framework is undertaken to identify any gaps in control, establishing any lessons learned and recommendations to assist with the design of controls.

The Council also participates in mandatory NFI exercises. The latest major exercise took place in October 2024 with results released from January 2025.

A whistleblowing policy is also available to staff, key stakeholders and the general public via the Council’s website.

A separate Counter Fraud Annual Report 2024/25 has also been produced which details these elements further.

4. Summary of Findings

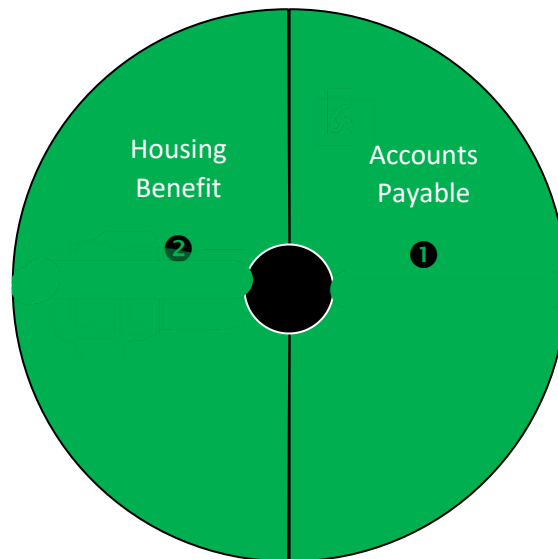
4.1. High Priority Findings

Report Title	Key Issues Arising
Officer and Member Conflict of Interest <i>(Limited Assurance)</i>	<p>The assessment of the framework around officer conflicts of interests identified high priority findings in relation to staff awareness, assessing and mitigating the risks arising from declarations, and improving Council policy. A further medium priority recommendation was made regarding simplifying declaration routes. Due to the level of inherent risk associated with the potential for bribery and corruption involving staff with more significant financial or other decision-making powers, a limited assurance opinion was provided although it should be noted that no concerns relating to actual or perceived conflicts were identified during the audit.</p> <p>Management actions have already been taken including the launch of the Officer online declaration of interest form and the roll out of anti-bribery and corruption training across the Council which should support improvements in the control framework in this area.</p>

Report Title	Key Issues Arising
Corporate Approach to Additional Hours (Overtime) <i>(Management Letter)</i>	Three high priority findings were identified. While it is understood that services have different requirements for the use of additional hours and therefore manage this locally accordingly, some areas of risk have been identified including policy and procedures, management of hours and management information. Management have already taken pro-active action in the areas identified.
Use of Off-Payroll Workers <i>(Limited Assurance)</i>	A high priority finding was identified relating to Procurement Regulations and Contract Procedure Rules. Medium priority findings were also identified relating to oversight and authorisation of agency workers, off payroll worker status and check forms and Agency Workers Code of Conduct.
Key Financial Systems – Debtors <i>(Management Letter)</i>	Three recommendations (one high and two medium priority) were made. Internal Audit noted that swift positive actions were being taken by management and based on the evidence presented during our follow up audit undertaken in April 2025, Internal Audit confirmed that all three recommendations have been implemented.
Internal/External Comms <i>(Moderate Assurance)</i>	One high priority finding was identified relating to the monitoring and management of social media accounts. One medium priority finding was identified relating to the internal agreement of communications.
Building Control <i>(Management Letter)</i>	<p>Due to severe staffing shortages faced by the service, it was not possible to complete the full scope of the review and therefore providing an assurance opinion was not appropriate. The findings from the reduced scope were however still presented to management which included the associated risks relating to staffing shortages and compliance with statutory functions.</p> <p>Management are exploring various options to improve the situation and a detailed report has been provided to Management Team. It is recommended that once staffing levels have improved, an extended audit follow up is completed.</p>

4.2. Key Financial Systems (KFS)

The KFS programme is a key indicator of the overall strength of the underlying control environment and each year Internal Audit carries out reviews of the Council's fundamental financial systems. In 2024/25, this included a key control review of Housing Benefit and Accounts Payable, the overall opinion for which was substantial assurance. For Housing Benefit, there were two low priority findings relating to processing and reconciliations. For Accounts Payable, there was one low priority finding relating to retrospective ordering. The wheel below summarises the number and priority of findings:



Debtors

Three recommendations (one high and two medium priority) were made. Internal Audit noted that swift positive actions were being taken by management and based on the evidence presented during our follow up audit undertaken in April 2025, Internal Audit confirmed that all three recommendations have been implemented.

Data Analytics (Payroll)

Internal Audit reviewed Payroll, as part of the 2024/25 Audit Plan, by partnering with PWC to enable the use of Data Analytics. The aim of this review was to identify the key Payroll controls within the Council's iTrent System and devise an overarching programme of Data Analytics to allow testing 100% of the data across the processes to give assurance on the effectiveness of these controls, with a specific focus on anti-fraud controls. No exceptions were identified in any of the tests apart from duplicate bank accounts and leavers paid after 60 days. Following the analysis by PWC, the Internal Audit team followed up with the Payroll Manager on the risk-based exceptions identified. However, it was confirmed through discussion with the Payroll Manager and review of iTrent data that these payments were genuine, and no issues were identified.

4.3. Results of Individual Assignments (listed in order of priority of findings)

Report Title	Assurance Rating	High	Med	Low
Officer and Member Conflict of Interest	Limited	3	3	0
Corporate Approach to Additional Hours (Overtime)	Management Letter	3	0	0
Use of Off-Payroll Workers	Limited	1	3	0
Key Financial Systems - Debtors	Management letter	1	2	0
Internal/External Comms	Moderate	1	1	1
Volunteers	Moderate	0	3	0
Licensing	Moderate	0	2	1
Cyber Security & Data Breaches	Moderate	0	2	1
Corporate Property & Asset Management	Moderate	0	2	0
Hylands House	Substantial	0	3	1
Key Financial Systems - Accounts Payable and Housing Benefit	Substantial	0	0	3
Payroll (Data Analytics)	Management letter	0	0	0
Garden Waste Advice	Management letter	n/a	n/a	n/a
Building Control	Management letter	n/a	n/a	n/a
Safety Compliance Monitoring	Information only	n/a	n/a	n/a

Internal Audit have also continued to provide ad hoc advice and guidance during 2024/25.

4.4. Management's Response to Implementing Audit Recommendations

A key measure of success and a strong internal control environment is timely implementation of recommendations. All planned audit work undertaken is subject to a formal follow up to ensure that all agreed actions have been implemented. Performance relating to the implementation of recommendations during 2024/25 is tabled below.

Audit Title	Original Assurance Rating	Key Findings
Museum	Limited	<p>In the original report, seven recommendations (three high and four medium priority) were made. Our initial follow up audit in December 2024 confirmed that two high priority recommendations had been implemented. However, due to staff turnover, the remaining high priority recommendation (relating to the Museum catalogue) was still outstanding, and the four medium priority recommendations (relating to insurance, acquisitions, policies and procedures and security of assets) had been partially implemented with a revised target date of January 2025.</p> <p>It was agreed with management that Internal Audit would complete a final follow up review in April 2025 to determine the status of the remaining recommendations. Based on the evidence presented, our follow up audit revealed that all of the outstanding recommendations have now been implemented.</p>
Key Financial Systems – Debtors	Management Letter	<p>In the previous report (issued January 2025), three recommendations (one high and two medium priority) were made. Internal Audit noted that swift positive actions were being taken by management and based on the evidence presented, our follow up audit in April 2025 confirmed that all three recommendations have been implemented.</p>
Theatres - Box Office and Food & Beverages	Moderate	<p>In the previous reports, four medium priority and one low priority recommendations were made. Based on the evidence presented, our follow up audit confirmed that all five recommendations have been implemented.</p>
Members Allowances and Expenses	Moderate	<p>In the previous report, three recommendations (two medium and one low priority) were made. Based on the evidence presented, our follow up audit confirmed that two medium recommendations have been implemented and one low priority recommendation relating to coding was due to be implemented with immediate effect.</p>
Safer Recruitment	Moderate	<p>In the previous report, two medium priority recommendations were made. Based on the evidence presented, our follow up audit confirmed that both recommendations have been implemented.</p>
Council Surveillance	Substantial	<p>In the previous report, one medium priority and two low priority recommendations were made. Based on the evidence presented, our follow up audit confirmed that two</p>

Audit Title	Original Assurance Rating	Key Findings
		recommendations have been implemented, and one medium priority recommendation relating to non-RIPA actions (which are best practice, rather than a requirement) have not yet been implemented; a revised implementation date of November 2025 has been agreed.
UK Shared Prosperity Fund (Economic Development)	Substantial	In the previous report, one medium recommendation relating to monitoring and reporting was made. Based on the evidence presented, our follow up audit revealed that this has been implemented.
Parks and Open Spaces	Substantial	In the previous report, one medium priority recommendation was made. Based on the evidence presented, our follow up audit confirmed that this recommendation has been implemented.
KFS - Council Tax and Business Rates	Substantial	In the previous report, one low priority recommendation was made. Based on the evidence presented, our follow up audit confirmed that this has been implemented.

The recommendation of including awareness of the Bribery Act in staff training and awareness made in previous audit reviews of Planning, Waste and Recycling, Environmental Health and On Street Parking was implemented when wider corporate anti-bribery training was rolled out during 2024/25.

Follow up reviews of Project Management and Housing Rents have been deferred to 2025 due to policy implementation timing. The outcome of these will be reported to future Audit and Risk Committee meetings.

5. Review of the Effectiveness of Internal Audit

5.1. Our performance against Key Performance Indicators (KPIs) used to demonstrate the effectiveness of the internal audit function during 2024/25 is shown in the table below.

KPI	Target	Result 2024/25
Audit Plan delivered to Draft Report Stage by 31st March	90%	93%
Audit Plan delivered to final report stage by 31st May	100%	100%

Overall customer satisfaction score for the year to meet or exceed acceptable level (i.e. very good or good) for at least 90% of completed surveys	90%	100%
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6. Progress of Internal Audit Strategy

- 6.1. The Internal Audit Strategy 2025-27 was approved by Audit and Risk Committee in January 2025 and is effective from 1st April 2025. Progress will be documented in future annual reports alongside the revised suite of KPI's and Internal Quality Assessment reports.

Annual Opinion Categories

The table below sets out the four types of annual opinion that Internal Audit use, along with the types of findings that may determine the annual opinion given. The Audit Services Manager will apply their judgement when determining the appropriate annual opinion, so the guide given below is indicative rather definitive.

Type of Annual Opinion	When to use this type of annual opinion
Substantial	<ul style="list-style-type: none"> Generally, only low risk rated weaknesses found in individual assignments; and None of the individual assignment report have an overall report classification of either high or critical risk
Moderate	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and None of the individual assignment reports have an overall classification of critical risk
Limited	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete</i> parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignment that are <i>not pervasive</i> to the system of internal control; and A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
No	<ul style="list-style-type: none"> High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.

Key to Assurance Levels in Individual Reports

No Assurance	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
Moderate	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Substantial	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be advice and best practice.

Key to Risk Ratings for Individual Findings in Reports

Critical	Financial: Severe financial loss; Operational: Cessation of core activities; People: Life threatening or multiple serious injuries to staff or service users or prolonged workplace stress. Severe impact on morale & service performance. Mass strike actions etc; Reputational: Critical impact on the reputation of the Council which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV; Legal and Regulatory: Possible criminal, or high-profile civil action against the Council, members or officers. Statutory intervention triggered impacting the whole Council. Critical breach in laws and regulations that could result in material fines or consequences; Projects: Failure of major Projects and/or politically unacceptable increase on project budget/cost. Elected Members required to intervene.
High	Financial: Major financial loss. Service budgets exceeded; Operational: Major disruption of core activities. Some services compromised. Management Team action required to overcome medium-term difficulties; People: Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff; Reputational: Major impact on the reputation of the Council. Unfavourable media coverage. Noticeable impact on public opinion; Legal and Regulatory: Major breach in laws and regulations resulting in significant fines and consequences. Scrutiny required by external agencies; Projects: Key targets missed. Major increase on project budget/cost. Major reduction to project scope or quality.
Medium	Financial: Moderate financial loss. Handled within the team; Operational: Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required; People: Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance of staff; Reputational: Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage; Legal and Regulatory: Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation; Projects: Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team.
Low	Financial: Minor financial loss; Operational: Minor errors in systems/operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users; People: Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale; Reputational: Minor impact on the reputation of the organisation; Legal and Regulatory: Minor breach in laws and regulations with limited consequences; Projects: Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality.

Limitations and Responsibilities

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. Internal Audit shall endeavour to plan its work so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, Internal Audit shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, the examinations of Internal Audit should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless Internal Audit is requested to carry out a special investigation for such activities in a particular area.

Limitations inherent to the internal auditor's work

Internal Audit work has been performed subject to the limitations outlined below:

- **Opinion**

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence, management and the Audit & Risk Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

- **Internal control**

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

- **Future periods**

Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate