Internal Audit Annual Report

Annual Report and Head of Audit Opinion Statement 2025/2026

Stockton-on-Tees BOROUGH COUNCIL

Section 1 Executive Summary

Background and Overall Opinion Statement

Introduction

Under the Accounts and Audit Regulations 2015, the Council is required to *"undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"*. For the purposes of the 2023/24 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).

The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control and this is reported in the Annual Governance Statement. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Council's system of internal control and should be used to inform the preparation of the Annual Governance Statement.

It is management's responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Overall Opinion Statement

As the Head of Internal Audit, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion on:

- The findings from all internal audit work and the subsequent ratings;
- Any follow up exercises undertaken;
- The extent and focus of risk-based internal audit activity undertaken;
- Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

This opinion is based on the cumulative results of risk-based internal audit work, including thematic reviews, ad-hoc assignments and follow-up activity, alongside wider assurance available to the Council. Sufficient, relevant and reliable information has been obtained to support this conclusion, which reflects the professional judgement of the Head of Internal Audit.

It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time. However, some of our work during the year has indicated concerns in relation to specific areas or processes within the Council which warrant being highlighted separately.

A summary of these themes is included within this report, with more detailed findings including sensitive financial, operational and investigative information set out in the exempt section of this report in accordance with Schedule 12A of the Local Government Act 1972

I can confirm there have been no impairments to independence or objectivity of the service.

Conformance with the Global Internal Audit Standards

Conformance with the Global Internal Audit Standards provides assurance on the adequacy of arrangements for management of the internal audit function and the level of reliance that can be placed on the opinions given in this report.

It is a requirement of the standards to undertake an external review of compliance. The latest external assessment was completed by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2022 which concluded that the service conforms with the previous Public Sector Internal Audit Standards. Such an external review is required to be completed at least once every 5 years.

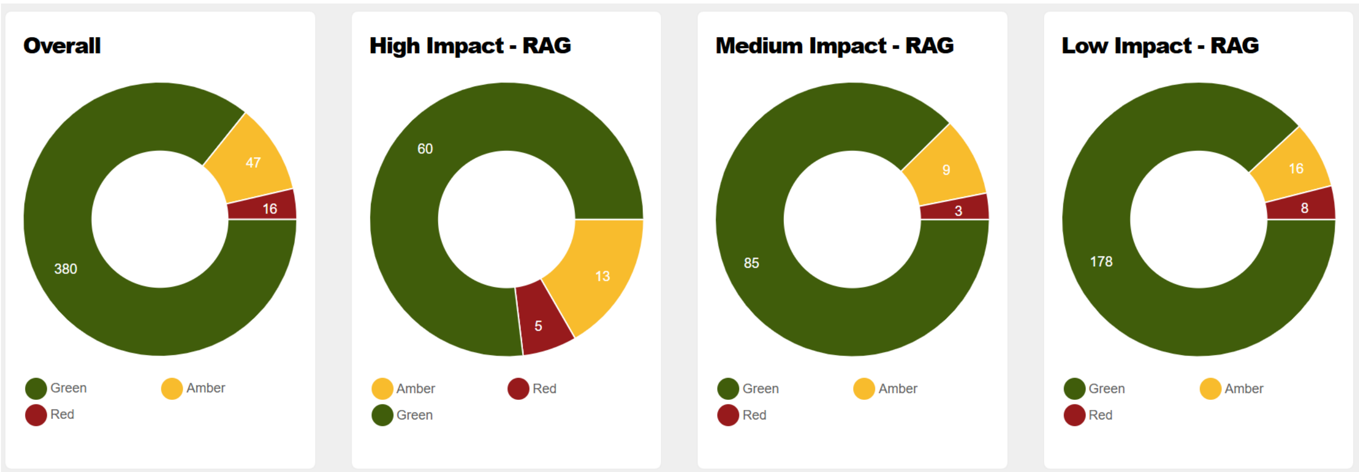
A revised standard came into force in April 2025, I can confirm that we have self-assessed the service against the revised Global Internal Audit Standards and believe that we are compliant with these new standards.

Section 2 Results

Detailed Results to Support the Opinion Given

Status of Controls - Overall

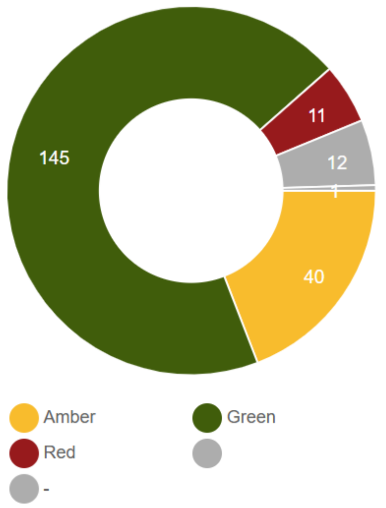
In overall terms the control environment is showing a positive level of assurance. The main areas of concern specifically in relation to high impact controls are in response to ad-hoc pieces of work as outlined in the appendix to this report.



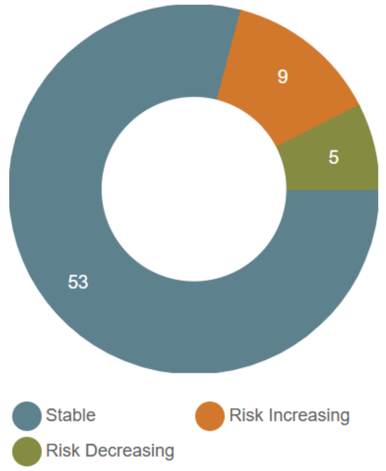
Results of Testing in the Previous 12 Months

The results of risk-based audit activity undertaken during the year provide further support to the overall opinion. Priority is given to controls risk assessed as having a high impact and these are tested more frequently. Management continue to engage positively with Audit recommendations with only 2 recommendations not implemented within the timeframe originally outlined. The new audit system has allowed us the opportunity to track 2 additional metrics, direction of travel and root cause analysis. As these are relatively new introductions it is not yet possible to draw any overall conclusions, however this will give us a powerful tool for understanding the true cause of issues and the direction of travel the control environment is taking.

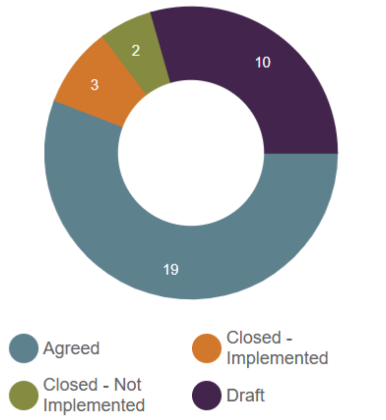
Controls Tested Last 12 Months



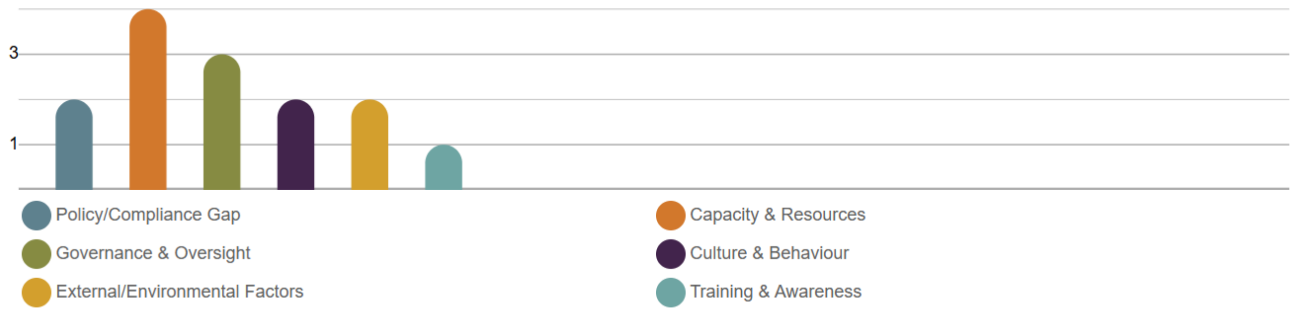
Direction of Travel



Recommendations

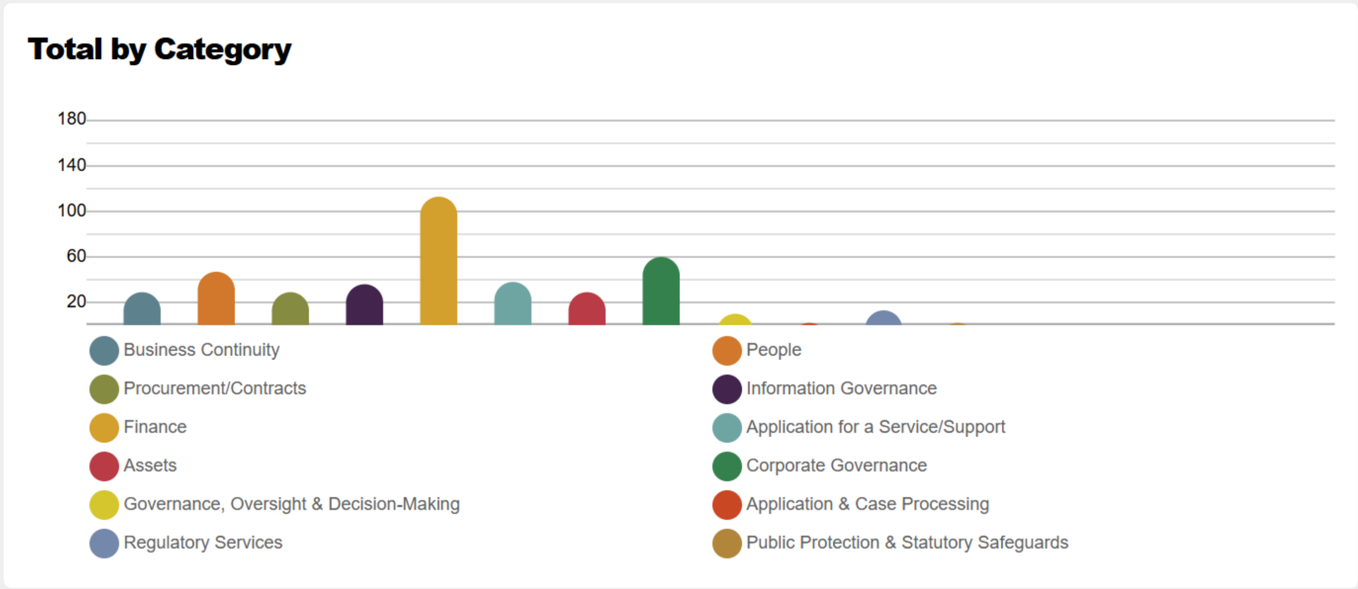


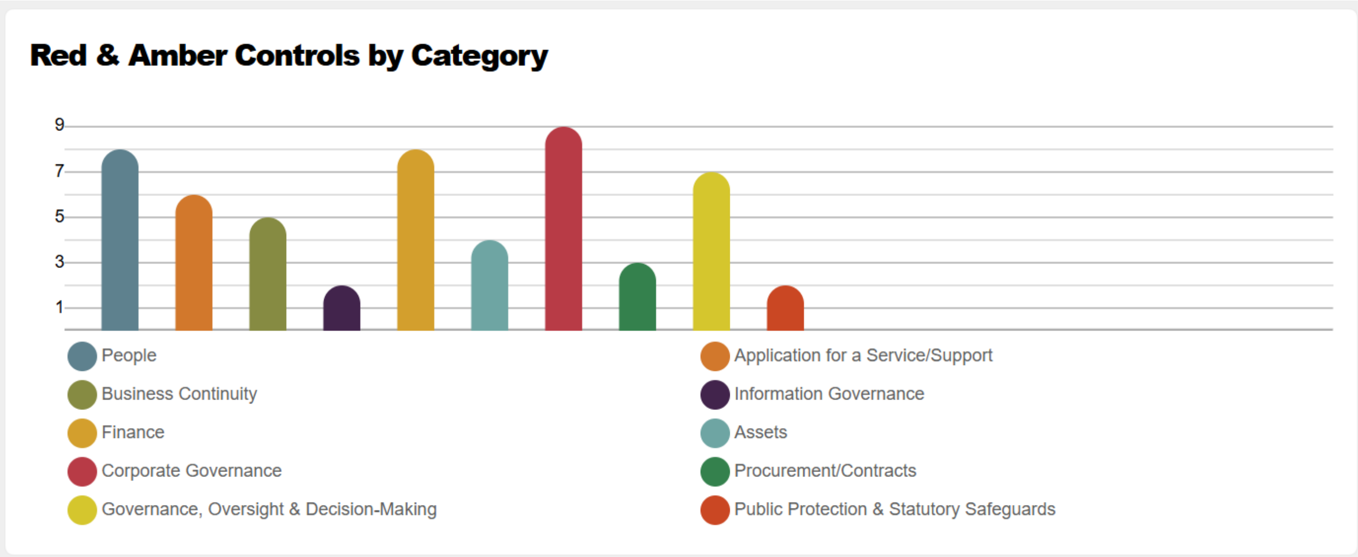
Root Cause Analysis



Assurance Levels by Theme

Each control is assigned to a governance theme. The purpose of this analysis is to identify any trends against a particular theme. The results do not suggest any one specific area of weakness.





Counter Fraud

The audit team has continued to support counter fraud efforts through specific testing, provision of advice and guidance and by managing the National Fraud Initiative process.

Added Value Work

The internal audit service has supported the Council outside of the normal audit process in the following ways:

- Daily checks to support Xentrall to identify any potential duplicate payments, before the payment is made. Feedback from Xentrall is that there are a number of duplicate payments prevented reducing potential losses to the council.

Audit Plan Review

The introduction of the new system offered a good opportunity to review the work we are doing. We will be restructuring the plan slightly to support broader coverage of the control environment and enhance our ability to identify risks across a wider range of processes. Much of our work is focussed on data quality and ensuring decisions have been taken in accordance with a defined set of criteria. We will be looking to introduce more judgement-based testing into the programme. We will also be looking to take advantage of the opportunities AI presents to review basic data quality and simple decisions.

Section 3 Quality, Assurance & Improvement Process (QAIP)

Results of Measures in Place to Continuously Improve the Service

Balanced Scorecard

The service monitors a number of measures designed to demonstrate compliance with the standards and the effectiveness of the service overall. There are no issues to note in any of these measures.

Stewardship (Coverage)		
Measure	Target	Performance
Presentation of Annual Report (Annual)	June	June 2025
Presentation of Activity Report	Qtrly	Qtrly

Stakeholders		
Measure	Target	Performance
Client Satisfaction	TBC	Overall Positive Feedback
Recommendation Not Implementation	10%	8.3%

Process		
Measure	Target	Performance
Staff Meetings Held (Period)	26	38
Up to Date Audit Manual	July 2026	In Progress

People		
Measure	Target	Performance
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%