

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

06 April 2006

### Report of the Director of Finance

#### Part 1- Public

#### Delegated

### 1 INTERIM REPORT OF THE CHIEF INTERNAL AUDITOR

#### Summary

**This report informs Members of the Audit Committee on the outcome of Internal Audit Reports completed up to February 2006. It also asks Members to consider this report as evidence in their consideration of the Statement for Internal Control.**

#### 1.1 Audit Methodology

- 1.1.1 Internal Audit have adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) "Code of Practice for Internal Audit in Local Government in the United Kingdom".
- 1.1.2 Audits are carried out against an annual plan that is based upon risk. For most topics a systems based approach is adopted whereby the auditor identifies the key internal controls within a system and carries out test sampling in order to arrive at a conclusion of whether those controls are effective.
- 1.1.3 For the main accounting systems a complete review will be undertaken every two years period using the CIPFA Internal Control Matrices. These matrices are designed to enable the auditor to carry out a review of the internal controls within a system.
- 1.1.4 From this work the auditor will determine an opinion of the level of assurance that can be placed on the system controls. These levels of assurance are described in detail in the report to this Committee on the Audit Plan 2006/07.
- 1.1.5 Upon the conclusion of the audit the auditor will complete an audit report detailing the work carried out, the conclusions arrived at and any recommendations made.
- 1.1.6 The recommendations will be given a priority as follows: -
  - High – A fundamental weakness in the system that puts the Council at risk.
  - Medium – A weakness within the system that leaves the system open to risk.

Low – Desirable improvement to the system.

Table to show position of recommendations made as at February 2006.

<b>Recommendations Made</b>	151	
High	18	
Medium	80	
Low	53	
<b>Recommendations Accepted</b>	108	71.52%
High	13	
Medium	58	
Low	37	
<b>Recommendations Rejected</b>	2	1.32%
High	0	
Medium	0	
Low	2	
<b>Recommendations Unresolved</b>	41	27.15%
High	5	
Medium	22	
Low	14	
<b>Recommendations Implemented</b>	68	62.96%
High	8	
Medium	41	
Low	19	
<b>Recommendations Action In Progress</b>	20	18.52%
High	0	
Medium	10	
Low	10	
<b>Recommendations Action Planned</b>	20	18.52%
High	5	
Medium	7	
Low	8	

- 1.1.7 The above table shows the position of recommendations made up to February 2006. The recommendations unresolved are where the action plan has not yet been returned. A full report of the final outcome of recommendations made will be reported to Members at a later meeting. The table demonstrates a high level of acceptance of recommendations with 62% of accepted recommendations having already been implemented.
- 1.1.8 As part of the overall corporate governance of the Council a copy of each report is circulated to the Director of Finance, the relevant Chief Officer and the Manager concerned. If a report covers an area of Financial Services then the Chief Executive receives a copy.
- 1.1.9 In addition the Council's District Auditor receives a copy of each report.
- 1.1.10 The Chief Officer will also receive an action plan with each report. This action plan has a summary of each recommendation and its priority. The Chief Officer is asked to discuss the recommendations with the manager concerned and to agree

or reject the recommendations made. The planned implementation date is also added by the Chief Officer where recommendations are agreed.

- 1.1.11 The completed action sheet is returned to Internal Audit where the responses are recorded. Missing action sheets are chased on a regular basis. At a later date a follow up audit will take place in order to ensure that the recommendations accepted are in place.

## **1.2 Summary of Audits**

- 1.2.1 In this report Members are updated on audits carried out from the 2005/06 Audit Plan as at February 2006. It is anticipated that a majority of the original plan for 2005/06 will be completed.

- 1.2.2 A summary of these audits is attached as **[Annex 1]**. This summary provides a brief explanation of the audit objective, gives the level of assurance given by the auditor and informs Members of any High Priority recommendations made with subsequent action taken on them.

## **1.3 Statement of Internal Control**

- 1.3.1 As part of the legislative requirements of the budget process the Council is required to complete a Statement of Internal Control (SIC). The SIC is intended to be a consideration by Members on the overall soundness of the internal controls within the Council in order for Members to have a high level of assurance in the statement of accounts. Internal Audit provides one element of the evidence to support this judgement.
- 1.3.2 This report is intended to give Members of the Audit Committee a summary of the work carried by Internal Audit. This will enable Members to reach a level of assurance arising from the audits carried out as to the effectiveness of the internal controls in place. This does not replace Management responsibility for sound internal controls as an audit is only a snapshot in time but it does provide evidence of the soundness of this Council's internal control environment at the time the audit was conducted.

## **1.4 Audit Levels of Assurance**

- 1.4.1 Within the period reported on forty-five audits have been completed. The levels of assurance given were: -

High - 26

Substantial - 13

Limited - 3

Minimal – 0

N/A - 3

- 1.4.2 Overall the levels of assurance give an indication that there are sound internal controls operating within the Council. Where there were limited assurance levels given there were recommendations made to increase the level of the internal control environment. Even in the areas where the audit opinion was limited there were no concerns that there were circumstances that would have a material effect on the financial statements of the Council.

## **1.5 Legal Implications**

- 1.5.1 The Director of Finance is required under s151 of the Local Government Finance Act 1972 and the Accounts & Audit Regulations to ensure that the Council has an adequate system Internal Audit in place and that the accounting practices of the Council have adequate internal controls. The reviews carried out by Internal Audit support that this is the case and that this obligation is being fulfilled.

## **1.6 Financial and Value for Money Considerations**

- 1.6.1 During the conduct of internal audit reviews the auditor considers the financial risk to the Council and where appropriate considers Value for Money.

## **1.7 Risk Assessment**

- 1.7.1 Internal Audit does not replace the Management responsibility to ensure that adequate internal controls exist but it does provide an independent review of these internal controls and a level of assurance to their effectiveness.

## **1.8 Recommendation**

- 1.8.1 Members are **RECOMMENDED** to note the contents of this report and use it as evidence in their consideration of the Statement for Internal Control.

Background papers:

contact: David Buckley

Internal Audit Files

Sharon Shelton  
Director of Finance