

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

24 October 2006

Report of the Director of Finance

Part 1- Public

Matters for Information

1 INTERNAL AUDIT OUTTURN 2005/06

Summary

This report informs Members of the work carried out by Internal Audit in the last financial year. Members are asked to refer to the Interim Report of the Chief Internal Auditor presented to the Audit Committee meeting of 6 April 2006.

1.1 Role of the Audit Committee

- 1.1.1 The Audit Committee are required to conduct a review of the effectiveness of the system of internal control within the Authority as part of the Statement of Internal Control process.
- 1.1.2 The work of Internal Audit is reported to Members and Management and forms part of this process. The audit process includes an annual audit plan that is extracted from a three year plan designed to ensure that the key systems are reviewed on regular basis.
- 1.1.3 In addition all high level risks identified in the Risk Registers are also reviewed.
- 1.1.4 This report informs Members of the work carried out by the Internal Audit Section during the year in question. The interim report was used by Members when considering the Statement of Internal Control 2005/06. This report adds additional evidence to the year end.

1.2 Outturn 2005/06

- 1.2.1 Members are asked to refer to the Interim Report of the Chief Internal Auditor presented to this Committee at the meeting of 6 April 2006. This report gave an explanation of the Audit Methodology and the outcome of reports 1 - 45 05/06 inclusive.
- 1.2.2 Attached is a summary of the audit reports completed for 2005/06 that have not been previously reported. **[Annex 1]**.

1.3 Levels of Assurance

1.3.1 The levels of assurance used by the Internal Audit Section is derived from definitions used by Kent County Council and is common to most Internal Audit Sections in Kent.

- Minimal: The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control or there is evidence that there is significant non-compliance with key controls.
- Limited: The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g. error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied or there is significant evidence that they are not applied consistently and effectively.
- Substantial: There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there might be some inconsistency in application.
- High: The system/area under review is not exposed to foreseeable risk as key controls exist and are applied consistently and effectively.

1.3.2 During 2005/06 fifty-one audits were completed. The levels of assurance given were: -

High - 30

Substantial - 15

Limited - 3

Minimal – 0

N/A - 3

1.3.3 **It is the Chief Internal Auditor's opinion that the overall the levels of assurance give an indication that there are sound internal controls operating within the Council.**

1.3.4 Where there were "limited" assurance levels given recommendations were made and accepted to increase the level of the internal control environment. Even in these areas there were no concerns that there were circumstances that would have a material effect on the financial statements of the Council.

1.3.5 The Chief Internal Auditor had no concerns that he needed to report to this Committee.

1.4 Outcome of Recommendations Made

1.4.1 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.

1.4.2 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 it open to risk.
- Low – Desirable improvement to the system.

1.4.3 The following table shows the final outcome of recommendations made during 2005/06.

Recommendations Made	183	
High	23	
Medium	91	
Low	73	
Recommendations Accepted	184	98.4%
High	23	
Medium	91	
Low	70	
Recommendations Rejected	3	1.6%
High	0	
Medium	0	
Low	3	
Recommendations Unresolved	0	0%
High	0	
Medium	0	
Low	0	
Recommendations Implemented	98	53.3%
High	12	
Medium	54	
Low	32	
Recommendations Action In Progress	27	14.7%
High	0	
Medium	13	
Low	14	
Recommendations Action Planned	59	32.0%
High	11	
Medium	24	
Low	24	

1.4.4 Since the outcome of the action plans were recorded there will have been further progress from 'planned' to 'implementation'. There is a set programme for following up audit recommendations and all recommendations accepted will be subject to further review to ensure compliance.

1.5 Audit Satisfaction

1.5.1 With every audit report issued a satisfaction questionnaire is sent to the Chief Officer. The questionnaire is designed to assess satisfaction with the content of the audit and the way that it was carried out.

1.5.2 The Internal Audit Best Value Performance Plan contains a target of a 90% satisfaction level to be achieved.

1.5.3 A total of 33 completed questionnaires were returned. These have been analysed to produce the following table showing responses to date: -

2005/06		No.	%age
1. Did the audit cover the topics detailed in the audit brief?	YES	31	94%
	N/A	2	6%
2. During the audit, was the Auditor approachable and responsive to your queries and comments?	YES	33	100%
3. Did the Auditor give a true and fair view of the systems currently in place?	YES	33	100%
4. Was the report constructive and realistic?	YES	33	100%
5. Do you agree with the opinions expressed by the Auditor in the conclusions of the report?	YES	33	100%
6. Were the recommendations discussed and explained clearly to you or your staff during the audit or following the issue of the draft report?	YES	31	96%
	N/A	2	6%
7. Will the content of the report assist with the management of resources/systems within the service?	YES	33	100%

Source: - Completed Audit Questionnaires

1.6 Audit Plan Coverage

1.6.1 The extent to which the audit plan is covered will have an impact on the amount of assurance that is provided to Members.

- 1.6.2 The operational plan submitted to Members for 2005/06 was completed with the exception of two topics. One topic was Poult Wood Grounds Maintenance that was deferred to 2006/07 at the request of Leisure Services. This audit has now been completed.
- 1.6.3 The other area was Information/Publicity and this was deleted from the plan as it was felt by the Chief Internal Auditor that there was no value in an Internal Audit review of this area.

1.7 Legal Implication

- 1.7.1 The Director of Finance is required under s151 of the Local Government Finance Act 1972 and The Accounts and Audit (Amendment) (England) Regulations 2006 S.I. 564 to ensure that the Council has an adequate system of Internal Audit in place and that the accounting practices of the Council have adequate internal controls.
- 1.7.2 The reviews carried out by Internal Audit support that this is the case and that this obligation is being fulfilled.

1.8 Financial and Value for Money Considerations

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

1.9 Risk Assessment

- 1.9.1 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.

Background Papers

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Internal Audit Files

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