

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**03 April 2007**

**Report of the Director of Director of Finance**

**Part 1- Public**

**Matters for Information**

**1 ANNUAL REPORT (2006/07) OF THE CHIEF INTERNAL AUDITOR**

**Summary**

**This report is produced by the Chief Internal Auditor to support the Statement on Internal Control.**

**In the opinion of the Chief Internal Auditor the Council's control environment has continued to be adequate and effective.**

**1.1 Background**

1.1.1 As part of the evidence supporting the conclusions of the Statement on Internal Control (SIC) the Chief Internal Auditor is required to provide an annual report to Members of the Audit Committee on the overall adequacy and effectiveness of the Council's control environment.

1.1.2 This opinion is based upon the work carried out by the Internal Audit Section and subsequent action on recommendations made.

**1.2 Audit Resources**

1.2.1 The CIPFA Code of Practice requires the Chief Internal Auditor to comment on the resource levels available to complete the Internal Audit Plan.

1.2.2 The section was fully staffed until January 2007 when the Internal Auditor took early retirement. In order to complete the Audit Plan for 2006/07 all the available resources of the section were given to completing the audit plan.

1.2.3 It is intended to seek permission to fill this vacant post early in 2007. The filling of this post has been included in calculating the resources required to complete the Audit Plan for 2007/08.

### **1.3 Audit Planning**

- 1.3.1 The annual Audit Plan is extracted from a three year cyclical plan and is presented annually to Members of this Committee. The proposed plan for 2007/08 is the subject of a separate report to this Committee.
- 1.3.2 The plan for 2006/07 was presented to and agreed by Members of this Committee in the meeting of 6 April 2006.
- 1.3.3 All of the main accounting and material systems audits identified for 2006/07 will have been completed for the financial year. Members have been notified of the outcome of audits undertaken on a regular basis and discussions have taken place at Audit Committees on how this information process can be enhanced.
- 1.3.4 Auditing Standards require the Audit Commission to consider the complete year when selecting test samples. In order for the Audit Commission to be able to place reliance on the work of Internal Audit it was agreed to complete the Main Accounting Systems work towards the end of the financial year so that sampling could take place over a longer time period. As a result there are a number of audits in progress at the year end that have not yet been completed.
- 1.3.5 The outcome of these audits will be reported in detail to Members of this Committee at a later meeting. However, at the time of writing this report there are no issues that it is considered require the attention of Members that would materially affect the accounts of the Council.
- 1.3.6 As previously reported to Members of this Committee there were concerns raised by Internal Audit and External Audit on the number of Benefit files that could not be found for sampling during audits. The Benefits Section will be carrying out an exercise to identify the location of individual files and identify exactly how many files are affected. Although this raises concerns it is not considered to materially affect the accounts of the Council.

### **1.4 Outcome of Audits carried out during 2006/07**

- 1.4.1 Members have previously been informed at earlier meetings of this Committee on the outcomes of reports numbered 1- 2006/07 to 34 - 2006/07. There are a further eight audits in progress at the time of writing this report. A fuller summary of these audits will be given to a later meeting of this Committee but a brief description of the reports follows to assist Members in considering the outcome of audit work carried out this year.
- 1.4.2 Report 35 - 2006/07 was a CIPFA matrix audit of the Council Tax system. The audit opinion was a substantial level of assurance. There were no high priority recommendations and a copy of the action plan is attached at **[Annex 1]**.
- 1.4.3 Report 36 - 2006/07 was a CIPFA matrix audit of Development Control. This audit is still at the draft stage but the draft opinion was a substantial level of assurance.

There was one high priority recommendation that required s106 agreements to be included on the section risk register. A copy of the draft action plan is attached at **[Annex 2]**.

- 1.4.4 Report 37 - 2006/07 was a CIPFA matrix audit of the Creditors system. The audit opinion was a substantial level of assurance. There was one issue that resulted in a high priority recommendation being made. There were some discrepancies between the dispatch records on the statement of pre-signed cheques issues and the pre-signed cheque dispatch record. This was discussed with the Exchequer Services Manager and it was agreed that he would review the documents used to improve the system. However, this was the only control weakness found and it was not considered critical enough to lower the overall opinion of the auditor. A copy of the draft action plan is attached at **[Annex 3]**.
- 1.4.5 Report 38 - 2006/07 comprised of a review of the key controls within the business rates system. The audit opinion was a high level of assurance. No recommendations were made.
- 1.4.6 Report 39 - 2006/07 was a review of the processes surrounding VAT. This report is still in the draft stage but the audit opinion was a substantial level of assurance. Two high priority recommendations were made. There had been an invoice received where the suppliers VAT registration number was not supplied. One recommendation related to contacting the specific supplier and the other recommendation was a general requirement for Exchequer Services staff to ensure that a VAT registration number is quoted on all invoices received. A copy of the draft action plan is attached at **[Annex 4]**.
- 1.4.7 Report 40 - 2006/07 is still being undertaken on the document scanning system in Financial Services. The initial field work has not raised any material concerns.
- 1.4.8 Report 41 - 2006/07 is still being undertaken and is a review of the key controls of the sales ledger. Most of the field work has been completed at the time of writing this report and the likely audit opinion is a substantial level of assurance. One area of concern is block bookings at Leisure Centres but this has been discussed with the Exchequer Services Manager and is not considered to be a financial risk.
- 1.4.9 Report 42 - 2006/07 was a review of the system for processing insurance claims. The audit opinion was a substantial level of assurance. One high priority recommendation was made. This recommendation concerned the files containing details of claims made and it was recommended that these were locked away overnight as they contain personal data. A copy of the draft action plan is attached at **[Annex 5]**.
- 1.4.10 The following table shows the outcomes of audit opinions for 41 reports undertaken during 2006/07.

Opinion	Description	No. of Audits
High	Strong controls are in place and complied with	11
Substantial	Controls are in place but improvements would be beneficial.	27
Limited	Improvements in controls or in the application of controls are required.	3
Minimal	Urgent improvements in controls or in the application of controls are required.	0

- 1.4.11 At the previous Audit Committee Members requested further details of the cases where a limited assurance opinion was given.
- 1.4.12 Report 7 - 2006/07 was a review of the procedures for operating the Child Safety Equipment Scheme. This scheme provides safety equipment for people in receipt of benefit. There were only ten applications that had been made for this service so all of the applications were examined. There were two cases found where authorisation had not been given by the applicant for their benefit entitlement to be checked in order to ensure that they were entitled to the service. This was a potential breach of Data Protection, however, subsequent guidance from the Information Commissioner has indicated that this is no longer necessary.
- 1.4.13 Report 14 - 2006/07 was a review of the Flexitime system of working. The level of assurance was given as Limited because of different interpretation of the scheme in different services. It was found that identical circumstances were being treated differently between services. It was recommended that Personnel Services address these differences to enable a consistent approach to be adopted. However, the differences were not considered to be material.
- 1.4.14 Report 27 - 2006/07 was a review of the newly installed cash kiosks. At the time of the audit regular reconciliations were not taking place and there were two discrepancies found when a reconciliation of both machines took place. There was a variance of £32.23 at Tonbridge and the Kings Hill machine appeared to have processed a payment of £214.00 twice. The Exchequer Services Manager has acted on the recommendations made and has advised Internal Audit that the discrepancies have been resolved. In addition he advised that daily and weekly reconciliations are taking place.
- 1.4.15 There were no opinions given where it was considered that only a minimal assurance level could be given. In addition where those assurance levels were given as limited. Action has been taken to address the weaknesses found.

## 1.5 Outcome of recommendations made

1.5.1 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.

1.5.2 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 the system open to risk.

Low – Desirable improvement to the system.

Table showing position of recommendations made as at March 2007.

<b>Recommendations Made</b>	149	
High	30	
Medium	79	
Low	40	
<b>Recommendations Accepted</b>	144	96.64%
High	30	
Medium	77	
Low	37	
<b>Recommendations Rejected</b>	4	2.68%
High	0	
Medium	2	
Low	2	
<b>Recommendations Unresolved</b>	1	0.68%
High	0	
Medium	0	
Low	1	
<b>Recommendations Implemented</b>	95	65.97%
High	19	
Medium	46	
Low	30	
<b>Recommendations Action In Progress</b>	12	8.33%
High	5	
Medium	7	
Low	0	
<b>Recommendations Action Planned</b>	37	25.69%
High	6	
Medium	24	
Low	7	

1.5.3 Although every audit examines the outcome of recommendations made in the previous audit report for a topic those that are given a high priority rating are followed up within six months.

1.5.4 Members can use this information as an indication of the effectiveness of the audit reviews. A high acceptance and implementation rate of audit recommendations

indicates that the internal controls of the organisation are being constantly improved.

## **1.6 Self Assessment Against CIPFA Code of Practice Shortened Checklist**

- 1.6.1 The revised CIPFA Code of Practice for Internal Auditors in the United Kingdom was issued in December 2006. The full report contains a self assessment checklist for reviewing the level of compliance with the new code. This checklist is comprehensive and the timing of the issue has left too little time for a full review to be carried out.
- 1.6.2 This has been recognised and CIPFA issued a shortened checklist that could be used this year as evidence for the Statement on Internal Control.
- 1.6.3 This checklist has been completed by the Chief Internal Auditor and reviewed by the Principal Auditor. A copy of the checklist is attached at **[Annex 6]**.
- 1.6.4 In the opinion of the Chief Internal Auditor the section is compliant with the shortened checklist. The checklist did not highlight any concerns that it was felt would affect the level of assurance given to Members of the internal control environment of the Council.

## **1.7 Quality Assessment Questionnaires**

- 1.7.1 As part of the audit process a quality assurance questionnaire is sent with the report. The objective of the questionnaire is to monitor the level of satisfaction with the work undertaken by Internal Audit.
- 1.7.2 There were 21 questionnaires completed and returned to Internal Audit. These achieved a 100% satisfaction level for all seven questions on the form.

## **1.8 Service Assurance Statements**

- 1.8.1 Each year Chief Officers are required to sign a service assurance statement to provide evidence that they believe that the internal control environment has operated satisfactorily within their service. A copy of the proforma Service Assurance Statement is attached at **[Annex 7]**.
- 1.8.2 The deadline for completion of these statements is midday on 3 April 2007. A verbal update will be given to Members at the Audit Committee meeting of that date on the outcome of the statements.

## **1.9 Outcome of Key Lines of Enquiry 2006/07**

- 1.9.1 Members will be aware that the Audit Commission undertake an annual review of the Internal Control Environment as one of the elements of the above exercise. The draft results for 2006/07 have been given to the Council and this element has increased from Level 2 to Level 3.

## **1.10 Legal Implications**

1.10.1 The Accounts and Audit Regulations 2006 require the Council to have an adequate and effective control environment. The work carried out by Internal Audit gives evidence that this is being achieved.

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

1.11.1 There are no direct financial or VFM considerations arising from this report. However, one of the objectives of internal audit reviews is to examine economy and effectiveness.

1.11.2 A failure to provide an adequate internal audit service could result in additional inspection regimes being imposed.

## **1.12 Risk Assessment**

1.12.1 A failure to operate an adequate and effective control environment could lead to a poor performance being recorded in the Key Lines of Enquiry inspection.

## **1.13 Opinion of the Chief Internal Auditor**

1.13.1 It is the opinion of the Chief Internal Auditor that an adequate and effective internal control environment has been in place during the financial year 2006/07.

Background papers:

contact: David Buckley

Audit Files

CIPFA Code of Practice for Internal Auditors in the United Kingdom 2006

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