

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

23 October 2007

### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 INTERNAL AUDIT OUTTURN 2006/07

##### 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 Annual Report of the Chief Internal Auditor presented to the Audit Committee meeting of 3 April 2007.

#### 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 this Committee of the work carried out by the Internal Audit Section. The annual report of the Chief Internal Auditor was used by Members when considering the Statement of Internal Control 2005/06. This report informs Members of the final outcome of the work of the Audit Section.

#### 1.2 Outturn 2006/07

1.2.1 Members are asked to refer to previous reports of the Chief Internal Auditor presented to this Committee for an explanation of the Audit Methodology and the outcome of reports 1-34 06/07 inclusive.

1.2.2 Attached is a summary of the audit reports completed for 2006/07 that have not been previously reported. **[Annex 1]**.

1.2.3 The following is the list of these reports with the auditor opinion.

- Report No 35- 2006/07 – Council Tax - The opinion of the Auditor is that the Control Assurance Level is **Substantial**. There were no High priority recommendations but an action plan was issued with eleven recommendations. All of these recommendations were accepted and are due for implementation during the current financial year.
- Report No 36- 2006/07 – Development Control - The opinion of the Auditor is that the Control Assurance Level is **Substantial**. There was one high priority recommendation that required s106 agreements to be included in the service risk register and this was completed in May 2007. There were a further five audit recommendations made that were all agreed and planned for implementation during the current financial year.
- Report No 37- 2006/07 – Creditors - The opinion of the Auditor is that the Control Assurance Level is **Substantial**. There were two recommendations made that both agreed and were planned for implementation in the current financial year. One of these was a High Priority recommendation.
- Report No 38- 2006/07 – NNDR - The opinion of the Auditor is that the Control Assurance Level is **High** and no recommendations were made.
- Report No 39- 2006/07 – VAT - The opinion of the Auditor is that the Control Assurance Level is **High**. There were eight recommendations made including three that were classified as high priority. These were all agreed and were scheduled to be implemented in the current year.
- Report No 40- 2006/07 – DIPS - The opinion of the Auditor is that the Control Assurance Level is **Limited**. There were seven recommendations made in the report of which four were high priority. Six recommendations were agreed and are due to be implemented. The recommendation that was not agreed related to storing scanned documents with an external contractor but was rejected due to the fact that the budget for doing so is under pressure. Alternative arrangements are being sought internally.
- Report No 41 - 2006/07 – Sundry Debtors - In the opinion of the Auditor the control assurance level is **Substantial**. There were no high priority recommendations arising from the report. Three lower priority recommendations were agreed and are due to be implemented this year.
- Report No 42- 2006/07 – Insurances - In the opinion of the auditor the control assurance level is **Substantial**. There were four recommendations made and one of these was a high priority. All have been agreed implemented.
- Report No 43- 2006/07 – Housing & Council Tax Benefits - In the opinion of the auditor the control assurance level is **Substantial**. There were five recommendations made and none of these were high priority. The

recommendations were all agreed are planned to be introduced within the current financial year.

- Report No 44 - 2006/07 – Benefit Forms Application Form Accuracy - In the opinion of the auditor the control assurance level is **Limited**. Six recommendations were made of which two were high priority. All of these were agreed and are in varying stages of being implemented.
- Report No 45 - 2006/07 – Building Control - In the opinion of the auditor the control assurance level is **Substantial**. There was one high priority recommendation that related to a previous audit report. This was agreed with an implementation date of June 2007 targeted.
- Report No 46 - 2006/07 – Benefit Fraud Investigation - In the opinion of the auditor the control assurance level is **Limited**. There were eight recommendations made of which six were high priority. The recommendations were all agreed and are in the process of being implemented.

### 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 2006/07 forty-six audits were completed. The levels of assurance given were: -

High - 12

Substantial - 28

Limited - 6

Minimal – 0

- 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 Members of 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 the system open to risk.
  - Low – Desirable improvement to the system.
- 1.4.3 At the last meeting of the Audit Committee Members requested a summary of the outcomes of the High Priority recommendations. The attached summary provides this information and is taken from the action plans produced during the year. The responses from completed action plans have been used to inform Members of the proposed action and timetable for completion. **[Annex 2]**
- 1.4.4 As part of the management process a record of all recommendations is kept and when the action plan is returned the information contained is added to the recommendations summary. All high priority recommendations are followed up within six months of their planned implementation date. Lower priority recommendations are followed up as part of the next audit.
- 1.4.5 The following table shows the final outcome of recommendations made during 2006/07.

<b>Recommendations Made</b>	206	
High	48	
Medium	106	
Low	52	
<b>Recommendations Accepted</b>	201	97.6%
High	47	
Medium	104	
Low	50	
<b>Recommendations Rejected</b>	5	2.4%
High	1	
Medium	2	
Low	2	
<b>Recommendations Unresolved</b>	0	0%
High	0	
Medium	0	
Low	0	
<b>Recommendations Implemented</b>	118	58.7%
High	26	
Medium	55	
Low	37	
<b>Recommendations Action In Progress</b>	26	12.9%
High	14	
Medium	11	
Low	1	
<b>Recommendations Action Planned</b>	57	28.4%
High	7	
Medium	38	
Low	12	

- 1.4.6 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 It is intended that the Kent Audit Group will use similar based questionnaires to prepare some benchmarking information for 2007/08.
- 1.5.3 The Internal Audit Best Value Performance Plan contains a target of a 90% satisfaction level to be achieved.
- 1.5.4 A total of 35 completed questionnaires were returned. These have been analysed to produce the following table showing responses to date: -

<b>2006/07</b>		<b>No.</b>	<b>%age</b>
1. Did the audit cover the topics detailed in the audit brief?	YES	35	100%
2. During the audit, was the Auditor approachable and responsive to your queries and comments?	YES	35	100%
3. Did the Auditor give a true and fair view of the systems currently in place?	YES	35	100%
4. Was the report constructive and realistic?	YES	35	100%
5. Do you agree with the opinions expressed by the Auditor in the conclusions of the report?	YES	35	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	34	97%
	NO	1	3%
7. Will the content of the report assist with the management of resources/systems within the service?	YES	35	100%

Source: - Completed Audit Questionnaires

1.5.5 There was one negative response. This related to a client not being given an explanation of the recommendations made. The draft report invites discussion of recommendations but this response has identified that the wording of the question needs revising to ask whether clients were given the opportunity to seek clarification.

## **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 2006/07 identified 48 areas of audit review. Due to an early retirement there was a vacant post within the section for the last two months of the year. In addition for three of the months that he was still here he was assisting Exchequer Services with the implementation of the Cash Kiosks and Benefits Section with sorting the filing of Benefit Files. However, the CIA and PA carried out audits to ensure that the plan was not adversely affected and the section still completed 46 audits.

1.6.3 There were seven areas of audit where the audit was deferred until 2007/08 audit year. These were as follows: -

- Bank & Cheque Reconciliation – Following the retirement of the Chief Cashier this was identified as an area that required a detailed review of procedures so this audit was deferred whilst the review and updating of the process took place.
- Land Charges – This audit was deferred at the request of the service until a new computer package was fully implemented and tested.
- CRM – This audit was deferred until 2007/08 whilst the system was fully implemented.
- Tourist Information Office – This service is linked heavily with the CRM implementation so it deferred until 2007/08.
- Car Park Season Tickets This was a low priority audits that was deferred due to the vacant post in Audit.
- Refuse Collection Contract – This was deferred at the request of the service due to staff workload.
- Emergency Planning – This was deferred at the request of the service due to staff workload.

1.6.4 In addition there were four additional areas that were audited that were not in the original plan. These were Flexible Working, Cash Loss at Larkfield Leisure Centre, Martin Square Telephone Bills and Angel Centre Cash Loss.

## **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 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. Each audit considers the efficiency and effectiveness of the internal controls within the system.

## **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

David Buckley

Chief Internal Auditor