

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

7 April 2009

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 CHIEF INTERNAL AUDITOR'S ANNUAL REPORT

This report informs Members of this Committee on the work carried out by Internal Audit during the financial year 2008/09 and forms part of the evidence to assist Members consideration of the Annual Governance Statement. In the opinion of the Chief Internal Auditor the Council has maintained an adequate and effective internal control environment.

1.1 Background

- 1.1.1 As part of the evidence supporting the conclusions of the Annual Governance Statement 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. Members of this Committee receive regular updates on the outcome of Audit reviews undertaken. Included in these reports are a brief description of the objective of the audit and details of recommendations made. The Audit Committee meetings give Members the opportunity to raise questions on the work reported. This process enables Audit Committee Members to have a sound background on which to gauge the Chief Internal Auditor's assurance.

1.2 Audit Resources

- 1.2.1 The CIPFA Code of Practice requires the Chief Internal Auditor to report on the resource levels available to complete the Internal Audit Plan.
- 1.2.2 The section has been fully staffed throughout the year and has completed all of the high priority areas included in the plan.
- 1.2.3 In the opinion of the Chief Internal Auditor there are sufficient resources of the right skills to cover the Audit Plan.

1.3 Audit Plan 2008/09

- 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 2009/10 is the subject of a separate report to this Committee together with the three year plan commencing 2009/10.
- 1.3.2 As part of the plan preparation the Chief Internal Auditor and Audit Manager attended service management teams to discuss the draft plan and to agree any required changes. As part of this process a brochure was produced outlining the role and objectives of Internal Audit. A copy of this brochure is attached as **[Annex 1]**.
- 1.3.3 The plan for 2008/09 was presented to and agreed by Members of this Committee in the meeting of 1 April 2008.
- 1.3.4 All of the main accounting systems will have been covered within this year as planned. Members have been informed of the outcome of audits during the year and any audits not yet finalised will be reported on at a later meeting of this Committee.

1.4 Outcome of Audits carried out during 2008/09

- 1.4.1 Members will be aware that previous meetings of this Committee have received updates of audits on a regular basis. Attached as **[Annex 2]** is a further update of any completed audits not previously reported on.
- 1.4.2 There are still some audits continuing at the time of preparing this audit however there have not been any concerns raised that are considered material to the accounts.
- 1.4.3 Members may recall that at the meeting of this Committee on 10 February 2009 concerns were raised relating to the operation of the Rent Deposit Scheme. However, this investigation is still ongoing and the draft report has been issued with an audit assurance level of minimal. The final outcome of this audit will be reported to Members of this Committee at a later date.
- 1.4.4 There has been sufficient work carried out on this area in consultation with colleagues for me to determine the final outcome of the review. I have considered how this audit will affect my overall opinion. Discussions with the Principal Accountant have concluded that the outcome of this investigation is likely to be considered non-material of a trivial nature with regard to the accounts. The concerns were initially raised as part of the existing internal controls and the issues are being dealt with in the current financial year. For these reasons I am satisfied that this area of concern did not affect my overall view of the adequacy of internal control within the organisation.

- 1.4.5 There have been 43 audits completed at the time of writing this report. A summary of the assurance opinions issued is shown in the following table: -

Opinion	Description	No. of Audits
High	Strong controls are in place and complied with	10
Substantial	Controls are in place but improvements would be beneficial.	27
Limited	Improvements in controls or in the application of controls are required.	4
Minimal	Urgent improvements in controls or in the application of controls are required.	2

- 1.4.6 The two areas considered as Minimal assurance level, Developers Contributions and Court Costs, were reported upon in previous Audit Committee reports and steps have been taken to improve the control weaknesses identified.

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.

- 1.5.3 The following table shows the outcome of recommendations made as at 19 March 2009: -

Recommendations Made	140	
High	37	
Medium	62	
Low	41	
Recommendations Accepted	121	86.43%
High	35	
Medium	56	
Low	30	
Recommendations Rejected	1	0.71%

High	0	
Medium	1	
Low	0	
Recommendations Unresolved	18	12.86%
High	2	
Medium	5	
Low	11	
Recommendations Implemented	99	81.82%
High	30	
Medium	42	
Low	27	
Recommendations Action In Progress	1	1.00%
High	1	

- 1.5.4 The one rejected recommendation was a medium priority recommendation that a system was introduced to monitor all private print room sales. This was discussed with the auditor following the final report and was agreed that it was not cost effective to introduce such a system.
- 1.5.5 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 three months.
- 1.5.6 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.
- 1.5.7 The recommendations unresolved are due to the fact that the action plans relating to these audits are still within the response time for return and are not yet outstanding.

1.6 Quality Assessment Questionnaires

- 1.6.1 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.
- 1.6.2 There were 26 questionnaires completed and returned to Internal Audit. There was one negative response where the auditee felt that the recommendations were not discussed fully. This response was justified as a draft report had not been issued to the person concerned. The circumstances for this happening were investigated by the Chief Internal Auditor. The audit concerned related to the procedures for the preparation of performance indicators and a recommendation was made that for one section a procedure note was required. The auditor had assumed that there was no further discussion required and had issued the draft only to Central Services. The final report was issued to the

service concerned. Audit staff have been instructed to ensure that they issue drafts and steps taken to ensure that this does not happen again.

1.7 Service Assurance Statements

- 1.7.1 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.
- 1.7.2 The deadline for completion of these statements is midday on 1 April 2009. A verbal update will be given to Members at the Audit Committee meeting of that date on the outcome of the statements.

1.8 Outcome of Key Lines of Enquiry 2007/08

- 1.8.1 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 results for 2007/08 have been given to the Council and this element has remained at Level 3.
- 1.8.2 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.

1.9 Benchmarking with other Councils in Kent

- 1.9.1 The Kent Audit Group carried out a benchmarking exercise for work carried out during 2007/08. Not all of the Councils within the group submitted a response. The level of coverage for Tonbridge & Malling was in excess of the 90% target in the Cost Centre Performance Plan. The results of this exercise are shown in the following table: -

Authority Name and Contact	Total number of Audits planned for 2007/08	Total number of Audits 'Issued' per definition	% Plan achieved
Council 6	87	85	97.7%
Council 7	48	46	95.8%
TMBC	49	45	91.8%
Council 1	31	30	96.8%
Council 4	34	30	88.2%
Council 10	40	30	75.0%
Council 2	31	27	87.1%
Council 8	28	26	92.9%

Council 9	31	24	77.4%
Council 5	20	15	75.0%
Council 3	21	11	52.4%

- 1.9.2 As part of this exercise the productive time was calculated as a percentage of the available time. The productive time for Tonbridge & Malling does not include time spent by the Audit Manager attending non-audit functions such as Officer Study Groups and is considered reasonable. The results of this exercise are as follows:-

Authority Name and Contact	% for the year achieved
Council 8	82.12%
Council 2	80.80%
Council 6	80.25%
Council 4	79.22%
Council 9	78.85%
Council 10	78.58%
Council 7	75.88%
TMBC	74.00%
Council 1	73.53%
Council 3	71.66%
Council 5	70.98%

- 1.9.3 The final part of the benchmarking exercise was to compare the results of the satisfaction questionnaires in three areas. The first area was satisfaction with the effectiveness of the audit. The second area was satisfaction with the auditor. The third area was satisfaction with the report. These results were taken from existing questionnaires and were the questions considered to be closest to the objective being assessed. With Tonbridge & Malling the question used relates to the output of the audit being of use. There were no negative answers but the score was brought down by "not applicable" responses. The results of these questions are shown in the following table: -

	Satisfied with effectiveness of Internal Audit	Satisfied with Auditor	Satisfied with report
Council 1	100%	94%	97%
Council 2	100%	100%	100%

Council 3	94%	88%	100%
Council 4	100%	N/A	100%
Council 5	100%	100%	100%
Council 6	100%	89%	97%
Council 7	100%	100%	100%
Council 8	100%	N/A	100%
Council 9	100%	N/A	100%
TMBC	100%	100%	94%

1.10 Financial and Value for Money Considerations

1.10.1 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.

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

1.11 Risk Assessment

1.11.1 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.

1.12 Opinion of the Chief Internal Auditor

1.12.1 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 2008/09.

Background papers:

contact: David Buckley

Nil

David Buckley
Chief Internal Auditor