

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**13 April 2010**

**Report of the Chief Internal Auditor**

**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 2009/10 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 to support the conclusions reported in 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 taken on recommendations made.
- 1.1.3 Members of this Committee receive regular updates on the outcome of Audit reviews undertaken. Included in these reports is a brief description of the objective of the audit, work carried out and details of recommendations made. For each audit undertaken the auditor will give an assurance opinion.
- 1.1.4 This work is presented regularly to the Audit Committee meetings and this gives Members the opportunity to raise questions on the work reported. This process enables Audit Committee Members to have an informed background knowledge on which to gauge the Chief Internal Auditor's assurance.
- 1.1.5 Another addition to this process was the introduction of a session between the Audit Committee and Chief Internal Auditor to discuss current issues in greater detail.

## **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 staffing of the Internal Audit Section has remained constant throughout the year. This has enabled all of the high priority areas on the audit plan to be completed. In addition a majority of the other audits identified on the plan have been completed or are currently being worked on.
- 1.2.3 It is the opinion of the Chief Internal Auditor that the resource levels are sufficient to ensure that the requirements and objectives of the Internal Audit Plan are met.

## **1.3 Audit Plan 2009/10**

- 1.3.1 The Audit Plan for 2009/10 was extracted from the three-year cyclical plan and following consultation with management and Audit Commission was adopted by the Audit Committee of 7 April 2009.
- 1.3.2 As stated above the majority of planned work is completed. The only audit to be carried forward to next year is licensing. This is due to staffing issues and was by agreement between the Director of Central Services and the Chief Internal Auditor.
- 1.3.3 The section has also focussed upon carrying out testing of main accounting systems in liaison with the Audit Commission to enable them to place reliance on the work of Internal Audit when considering their year end testing programme.
- 1.3.4 The Internal Audit Plan for 2010/11 is subject to a separate report to this Committee.

## **1.4 Outcome of Audits carried out during 2009/10**

- 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 1]** is a further update of any completed audits not previously reported upon.
- 1.4.2 There are still some audits continuing or still at draft stage 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 earlier meetings of this Committee, concerns were raised relating to Housing Services' internal procedures. The follow-up of previous audit recommendations is currently underway and the final outcome of this work will be reported to the next Audit Committee. From the follow-up testing completed so far, there are still some areas where recommendations agreed have not yet been fully implemented. Meetings have taken place at Director level and there has been considerable progress to address these areas.

- 1.4.4 The Chief Internal Auditor is satisfied that there are no significant errors that are required to be brought to the attention of Members.
- 1.4.5 The Chief Internal Auditor is satisfied that there are no significant errors that are required to be brought to the attention of Members.
- 1.4.6 There have been 39 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	14
Substantial	Controls are in place but improvements would be beneficial.	21
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.	1

- 1.4.7 An explanation of these opinions is attached as **[Annex 2]**.
- 1.4.8 The minimal opinion related to season tickets and parking permits. Although the assurance opinion of this audit was minimal, this is because of the issues relating to the reconciliation between the Gateway system and the Integra accountancy system. As the result of the difficulties in carrying out this reconciliation for the sample in the audit, the auditor cannot form a judgement as to whether all monies received are banked intact and promptly. The difficulties surrounding this process have been acknowledged by the Parking and Office Manager and Internal Audit have agreed to assist in investigating what level of risk is perceived and whether there is a viable solution to resolve the problem. If it was not for this problem, the audit opinion would be substantial.
- 1.4.9 At the time of writing this report there are a further eight reports that are at the draft stage. These relate to the main accounting systems work that is completed at the year end. The draft opinions are 5 High, 3 Substantial.

## 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 22 March 2010: -

<b>Recommendations Made</b>	116	
High	38	
Medium	51	
Low	27	
<b>Recommendations Accepted</b>	108	
High	35	
Medium	48	
Low	25	
<b>Recommendations Rejected</b>	5	
High	0	
Medium	3	
Low	2	
<b>Recommendations Unresolved</b>	3	
High	3	
Medium	0	
Low	0	
<b>Recommendations Implemented</b>	74	
High	24	
Medium	30	
Low	20	
<b>Recommendations Action Planned</b>	34	
High	11	
Medium	18	
Low	5	

1.5.4 There have been five recommendations rejected, however none of these were given a high priority ranking and were as follows: -

- Arrange for an Electoral Register public extract to be supplied annually in order to ascertain residency when receiving applications. (Medium) This related to residency checks for parking permit applications but the Parking and Office Manager felt that this would be out of date too quickly to have been of value.
- Land Charges procedure notes should be typed up too ensure that they can be read easily (Medium) – This was rejected on the grounds that there are imminent changes taking place and it would be more appropriate to consider after then.

- Checks should be carried out to ensure that partners are spending funds as prescribed and reporting correctly. (Medium) This related to partnership grant expenditure where TMBC are the lead authority. This was rejected on the grounds that GOSE did not require this.
- It should be considered whether the use of handheld computers is practical and cost effective. (Medium) This related to food inspections and was rejected on the grounds of cost at the present time.
- It is suggested that the use of the customer cost section in the “Faredeal” system is investigated. (Low) This was considered not applicable as it was low priority and the scheme is due to be handed over to KCC.

1.5.5 In all of these cases it was felt reasonable for these recommendations to have been rejected and there were no concerns that arose from their rejection.

## **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 27 completed questionnaires received. The target is to receive 90% positive response for the seven questions asked. Five questions received a 100% positive response, the other two questions received a 96% positive response. One of these was a “not applicable” response and one was a negative response where the client did not agree with the opinion expressed by the auditor relating to the security of access to a room. The auditor felt that a keypad code on one door should be changed more frequently but the client felt that it was more important that a second door was locked and access restricted to a few members of staff. It was considered a reasonable response.

1.6.3 A number of favourable comments were also received relating to approach of the auditors and the quality of work produced.

## **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 2008/09**

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 2008/09 were reported to the Audit Committee meeting of 13 October 2009 and the Internal Control element of this assessment was scored as at Level 2. There was a change in scoring for this assessment where a level 2 is defined as meets minimum requirements; performs adequately.

- 1.8.2 At a meeting with the District Auditor feedback was received on the scores given. For this area the District Auditor explained that this area was subjective and it was felt that another nearby authority had a better reporting mechanism in relation to Risk Management.
- 1.8.3 Following this feedback, Members will be aware of the improved reporting of Risk Management that has been presented to this Committee.

## **1.9 Control Environment**

- 1.9.1 As well as the assurance Members have been given from the Internal Audit reports there has been some additional work undertaken that will provide Members with more information to consider the adequacy of internal control.
- 1.9.2 Members were advised of the outcome of a Peer Review of the Internal Audit Section undertaken by Gravesham District Council in a report presented to this Committee on 22 June 2009. This report concluded that the section were compliant with the CIPFA Code of Practice for Internal Auditors.
- 1.9.3 As previously stated the reporting regime for Risk Management has been considerably revised and Members of this Committee now receive regular updates showing the movement of operational risks, a detailed explanation and action taken for all operational risks in the red zone and regular reviews of the strategic risk register.
- 1.9.4 In the meeting of 26 January 2010 the result of a review of the role of the Audit Committee was reported to Members and the conclusion was that the Audit Committee was compliant with the CIPFA Guidelines in most areas.
- 1.9.5 At the same meeting the principles outlined in the CIPFA document "Managing the Risk of Fraud" were adopted. This followed an exercise to review the internal controls in place at TMBC with the principles outlined in the publication where it was considered that the Council was fully compliant.
- 1.9.6 The contents of the Audit Commission publication "Protecting the Public Purse" was also reported to Members at the same meeting. Following this report additional work has been undertaken to identify potential fraud.
- 1.9.7 An external consultant carried out a search of the Council's creditor payments for the last five years in order to identify any potential duplicate payments. Only one instance was found that was for just over £200. The consultants commented on the robustness of the internal controls in place.

- 1.9.8 The Council participated in the National Fraud Initiative. Although there are some investigations that are still ongoing, the overall result is that there were very few anomalies arising from this match.
- 1.9.9 A 100% check was made of Council Tax refunds made during the year looking for potential instances of money laundering or fraud. No queries arose from this exercise.
- 1.9.10 There has also been an increase in probity aimed at identifying potential fraud particularly in areas of cash handling. No significant errors were identified.
- 1.9.11 The Treasury management has been subject to a monthly check to ensure compliance with the Treasury Management Strategy Statement. No significant errors were identified.
- 1.9.12 The Accounts and Audit Regulations 2006 require the Council to have an adequate and effective control environment. The work carried out by Internal Audit and the factors outlined above provide evidence that this is being achieved.
- 1.9.13 This year the section has liaised closely with the District Auditor to carry out testing using the "Evaluation Testing Control" (ETC) checklists in order for the District Auditor to be able to place reliance on the work of Internal Audit and reduce the level of testing that they are required to carry out. This work was carried out using the framework contained within the draft protocol supplied by the District Auditor. Both sides found this worked well and was worthwhile.

## **1.10 Legal Implications**

- 1.10.1 The Accounts and Audit Regulations require Internal Audit to comply with the guidelines set out in the CIPFA Code of Practice for Internal Auditors. It is considered that this requirement is met.

## **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. In addition there is the potential for increased loss through fraud and error if the internal control environment is weak.

## **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 2009/10.

Audit Files

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