

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

17 June 2013

### Report of the Director of Finance & Transformation

#### Part 1- Public

#### Matters for Information

#### **1 ANNUAL INTERNAL AUDIT REPORT 2012-13**

##### **Summary**

**This report informs Members of the Internal Audit work completed during 2012-13, detailing how resources have been allocated and outturn against performance measures.**

#### **1.1 Background to Internal Audit**

- 1.1.1 The Accounts and Audit Regulations 2011 require the council to “*undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.*” For the 2012-13 financial year, proper practices were defined by the Code of Practice for Internal Audit In Local Government (2006) published by the Chartered Institute of Public Finance & Accountancy (CIPFA).
- 1.1.2 The Code requires the head of Internal Audit to report to those charged with governance with a summary of audit work to support their opinion on the overall adequacy and effectiveness of the organisation’s control environment. The Code also requires the head of Internal Audit to “*compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets*”. The Chief Internal Auditor presented a report to the April meeting of this committee to deliver his opinion on the control environment to support the Annual Governance Statement, also presented to the April Committee. This report seeks to provide Members with comparison of work undertaken to the work planned and provide a summary of outturns against performance measures in place.

#### **1.2 Internal Audit Staff Establishment**

- 1.2.1 The Internal Audit Team report to the Chief Internal Auditor and consists of the Audit Manager, a Senior Auditor post held by two officers in a job-share, and an Audit Assistant post. The Audit Manager post is shared with Gravesham Borough Council with the officer splitting her time equally between the two councils.

#### **1.3 Net Staff Out-turn**

- 1.3.1 Net staff resources available for the year (as detailed at **Annex 1**) amounted to 672 days. This is a small decrease on the net resources available in 2011-12 (713 days)

primarily due to the reduction in the working hours of the Chief Internal Auditor during the year.

- 1.3.2 The team has recorded twelve days of sickness absence in the year; this figure includes time taken by officers to attend medical appointments and is significantly below the council average.

## 1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2012-13 was presented to Management Team on 13 March 2012 and was approved by the Audit Committee on 10 April 2012. The Committee approved a minor amendment to the plan on 28 January 2013; the revised plan is attached at **Annex 2** for Members information. The plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.4.2 *Assurance Work* – this relates to audit work which informs the opinion of the control environment given to the Committee by the Chief Internal Auditor. This work focuses on planned audit review of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- 1.4.3 *Consultancy Work* – this relates to Internal Audit team members involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in fraud investigation work.
- 1.4.4 The team completed 97.37% of the revised plan during the year against a target of 95% completion. The audit not completed was deferred onto the 2013-14 audit plan at the request of the Chief Executive.

## 1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work. Annex 1 reports that a total of 394 audit days have been spent on the completion of assurance work in 2012-13. This included days allocated to finalising audits commenced during the 2011-12 financial year. Further details of the planned audit work completed during the year are shown in **Annex 3**. Where an assurance review has been given an audit opinion, definitions in use during 2012-13 are detailed at **Annex 4** of this report.
- 1.5.2 For Members information, Annex 3 also provides an update on progress made against the 2013-14 Internal Audit plan to date.
- 1.5.3 Where an audit review has resulted in an opinion of Limited, Internal Audit make recommendations to introduce additional controls or improve compliance with existing controls; these are agreed with client management prior to finalising the report. Internal Audit follow-up on recommendations made and have an escalation process in place that ultimately results in reporting to Management Team and this Committee should a key control weakness remain. 100% of all recommendations followed-up in 2012-13 were found to have been satisfactorily addressed.
- 1.5.4 Over 170 audit recommendations were made from assurance work in 2012-13 demonstrating that internal audit continues to make a significant number of

recommendations for change within the organisation as a contribution to improving the internal control arrangements of the council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.

- 1.5.5 The assurance work of the team conducted during the year has contributed to the internal control environment of the council being maintained and improved, council resources being more effectively used and a reduction in waste from fraud or error.

## **1.6 Consultancy Work**

- 1.6.1 The Internal Audit team spent a total of 100 days on consultancy work during 2012-13; this time was allocated to the following areas of work:

### *1.6.2 Specific Consultancy Reviews at the request of the Council's Management Team*

- 1.6.3 The 2012-13 Internal Audit Plan included an allowance of 108 days (inclusive of audit management resources) for conducting Value for Money / Efficiencies work as directed by the Council's Management Team. This allocation was used to conduct three specific projects which have been reported through the Council's Management Team and Overview Scrutiny Committee.

- 1.6.4 In addition, the Internal Audit team has continued to maintain a small resource budget to enable the team to respond to management requests for special projects to be completed, outside of the programmed audit work. It is considered that the completion of such projects is an important part of internal audit's role in helping management to ensure that the organisation maintains a sound control environment and pursues effective performance management arrangements and value for money opportunities. To this end, Internal Audit will continue to remain responsive to requests from management for such projects to be undertaken.

### *1.6.5 Corporate & Other Projects and Responsive Work*

- 1.6.6 Internal Audit team members have provided support to a number of key projects in the year, including the officer groups working to introduce corporate document management, the introduction of E-Forms for Payroll, the implementation of the new Income System and the Introduction of Universal Credit, local support for Council Tax and localisation of NNDR. In addition, time was spent supporting the Council's administration of the Police & Crime Commissioner Elections. Through involvement in such projects the Internal Audit team is contributing to the council's good governance and assurance arrangements.

### *1.6.7 Advice & Information*

- 1.6.8 The team offer ad hoc advice and information as and when requested by council officers and responded to a growing number of requests for such advice throughout the year; arrangements have been put into place to record the nature and volume of requests received to enable more detailed monitoring and reporting in future years. This is considered to be a fundamental service provided by the team, enabling officers to

consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the council.

#### 1.6.9 *Anti-Fraud Activity*

1.6.10 The Internal Audit team plays a key role in the council's anti-fraud activity and spent a total of 40 days on this type of work during the year.

1.6.11 The council has acted to investigate the National Fraud Initiative (NFI) 2011-12 data matches relating to Council Tax and Electoral Roll records. The Team has also co-ordinated the council's involvement in the 2012-13 NFI exercise, which matched records from Housing Benefit, Housing Tenancies, Payroll, Pensions, Creditors and Licensing databases. Data was submitted to the NFI in October 2012 and the matches from this exercise were released in February 2013.

1.6.12 The team have continued to play a key role in the council's corporate approach to the investigation of allegations of fraud, corruption and misconduct where appropriate. Details of any cases investigated are provided to the committee in June each year as part of the Annual Fraud Report.

1.6.13 In addition Internal Audit resources were spent carrying out proactive fraud reviews of the council's Annual & Flexi Leave Schemes and Housing Applications & Support Arrangements; details of both are provided within Annex 3 of this report.

### 1.7 **Other Audit Duties**

1.7.1 The time spent on other audit duties was devoted to planning and controlling the work of the section, internal audit development, general administration and the provision of support to wider council activities.

1.7.2 The team has continued to be represented on the Kent Audit Group and has responsibility for organising the 2013 Kent Audit Group Conference.

### 1.8 **Training**

1.8.1 The total time spent on formal training throughout the year amounted to 6 days; the majority of which related to professional training. In August 2012 the Audit Manager attained the Chartered Institute of Internal Auditors (IIA) Advanced Diploma in Internal Audit Practice. During the year, the Audit Assistant continued studies for the AAT Level 4 qualification.

1.8.2 Other members of the team have attended various training events during the year, including Data Protection and Anti-Money Laundering Training courses. All members of the team attended the tenth annual Kent Audit Conference in October 2012. The main purpose of the event was to bring together public sector audit staff within Kent to discuss current audit issues, provide networking opportunities and encouraged joint-working and information-sharing.

1.8.3 In addition to formal training, the Chief Internal Auditor and the Audit Manager have continued to provide each team member with specific training during the course of each audit undertaken in response to each auditor's particular needs. It is considered that

this approach has been effective in practice and has contributed to the continuation of the quality of audit reviews carried out by the team.

## **1.9 Performance Measures**

1.9.1 The Internal Audit team is measured against a set of seven performance measures which are intended to assess the effectiveness and efficiency of the team in achieving a quality Internal Audit Service. For 2012-13 the team has achieved the target set against all of the indicators measured. Actual performance of the team against these measures is provided for Members information at **Annex 5**.

## **1.10 General Internal Audit Development**

1.10.1 The Accounts and Audit Regulations 2011 require authorities to review the effectiveness of their internal audit arrangements. The Chief Internal Auditor has worked with Senior Management to meet the requirements of this review, the findings of which will be presented to the Audit Committee elsewhere on this agenda.

## **1.11 Partnership Working**

1.11.1 Since 1 December 2010 the council has operated a partnership arrangement whereby operational management responsibility for the Internal Audit team at Tonbridge & Malling Borough Council is provided by the Audit Manager employed by Gravesham Borough Council. A formal review of the partnership was carried out in September 2012 by the two councils; this found the partnership to be working well and achieving the objectives identified within the original business case for the partnership.

1.11.2 One of the objectives of establishing the partnership arrangement was to seek to institute common working practices at both sites. During the year the teams at both councils have worked to implement a common programmed audit process and common working papers and practices. This work culminated during the year with the development of common audit opinions that were agreed by the Management Teams and relevant Members committees of each council. It is considered that this work will help to enable Auditors to share working papers and, ultimately, conduct audit reviews across the two councils.

1.11.3 In the final three months of the 2012-13 financial year, the Tonbridge & Malling Internal Audit Team were ahead of their schedule for the completion of planned audit work (excluding the audit postponed at the request of the Chief Executive) however due to unplanned absences, the Gravesham Internal Audit Team were behind their schedule. With the approval of the Director of Finance & Transformation, a total of nine audit days support were provided by the Tonbridge & Malling Senior Auditors assisting the Gravesham Team with audit fieldwork and testing.

## **1.12 Biannual Client Satisfaction Survey**

1.12.1 The biannual survey of Internal Audit clients was carried out in March 2013 to provide an assessment of the current Internal Audit Service, establish current levels of client satisfaction and to identify areas for future service development and enhancement.

1.12.2 The survey was issued to 32 Directors, Service Managers and Senior Managers within the council. Though the response rate was 22 per cent, responses received provided extremely positive assurance that the council is receiving an effective audit service, whilst also identifying opportunities to develop the service further.

### **1.13 New Internal Audit Opinions**

1.13.1 As notified to the Audit Committee, the new Internal Audit Opinions will be adopted for all assurance reviews carried out from 1 April 2013.

### **1.14 Public Sector Internal Audit Standards**

1.14.1 During the year the council's Internal Audit team worked to CIPFA's Code of Practice for Internal Audit in Local Government 2006. From 1<sup>st</sup> April 2013 the team will be work to the Public Sector Internal Audit Standards (PSIAS) for the UK Public Sector. The PSIAS standards are intended to provide a common set of standards for all internal audit providers within the UK public sector.

1.14.2 The sector-specific guidance for the PSIAS was issued by CIPFA in April 2013 and the Chief Internal Auditor will be undertaking a self-assessment to demonstrate the extent to which the service complies with the PSIAS and to identify any areas where further work is required.

### **1.15 Internal Audit Charter / Internal Audit Manual**

1.15.1 The Internal Audit Charter sets out the purpose, role and responsibilities of the Internal Audit function of the council. The Internal Audit Manual provides Internal Auditors with a key point of reference for the procedures and practices operated by the team

1.15.2 The audit charter and manual will be updated to reflect the PSIAS and to ensure it remains reflective of current working practices. The revised charter will be presented to this committee for approval at a later meeting in accordance with the terms of reference of the committee.

### **1.16 The Future of Public Audit**

1.16.1 In August 2010 the coalition government announced plans to disband the Audit Commission and refocus audit of local public bodies on helping people hold those bodies to account for local spending decisions.

1.16.2 During 2012-13 the Department for Communities and Local Government (DCLG) published a draft Local Audit Bill for consultation which was then scrutinised by an ad hoc parliamentary committee. The Local Audit and Accountability Bill has been subsequently published and received its first reading in the House of Lords in May 2013.

1.16.3 The Chief Internal Auditor will, along with other key officers, continue to maintain an overview of the future of local public audit to ensure that the council is best placed to respond accordingly to any regulation changes and that Audit Committee Members are kept informed on this subject.

## **1.17 Internal Audit Summary**

- 1.17.1 The team has provided the council with an effective internal audit service during the year and responded well to the evolving needs of the council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have delivered against target on the audit plan and played a key role in maintaining the governance and internal control arrangements of the council whilst maintaining professional and productive relationships with clients.
- 1.17.2 Partnership working arrangements with Gravesham Borough Council have successfully continued, facilitating service developments as well as an ongoing cost saving for the Council.
- 1.17.3 Individual team members continue to be exposed to a variety of work requests and have responded enthusiastically and positively to this whilst ensuring that a high standard of audit work is completed by the team. This enabled the Chief Internal Auditor to deliver the opinion in April 2013 that Tonbridge & Malling Borough Council's system of internal control makes a positive contribution to the proper, economic, efficient and effective use of resources in achieving the council's objectives.
- 1.17.4 During the forthcoming year the team will continue to develop internal working practices as necessary, particularly considering the new professional standards affecting the service, and remain flexible to respond to the needs of the council.

## **1.18 Legal Implications**

- 1.18.1 The Accounts and Audit Regulations 2011 place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice relative to the 2012-13 financial year is defined as that contained within the Code of Practice for Internal Audit in Local Government in the United Kingdom published by CIPFA.
- 1.18.2 The Regulations also require the council to conduct, at least once a year, a review of the effectiveness of its internal audit. The review conducted gives due consideration to proper practice.

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

- 1.19.1 There are no direct financial implications from this report.

## **1.20 Risk Assessment**

- 1.20.1 The review of effectiveness provides assurance of the proper operation of the Internal Audit function of the council. The findings of the review should therefore be properly considered as part of the council's overall governance arrangements.

## **1.21 Equality Impact Assessment**

- 1.21.1 See 'Screening for equality impacts' table at end of report.

Background papers:

contact: Katey Durkin  
Audit Manager

None

David Buckley  
Chief Internal Auditor

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?	N/A	

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*