

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

22 June 2015

### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 ANNUAL INTERNAL AUDIT REPORT 2014-15

**This report informs Members of the opinion of the Chief Internal Auditor on the Council's internal control environment together with the Internal Audit work completed during 2014-15 to support that opinion.**

#### 1.1 Background to Internal Audit

1.1.1 The Accounts and Audit Regulations 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."

1.1.2 Proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS. The PSIAS requires Internal Audit to report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. The PSIAS also require the Chief Audit Executive (Chief Internal Auditor) of Public Sector organisations to "deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement."

#### 1.2 Opinion of the Chief Internal Auditor on the Internal Control Environment

##### *Purpose of the system of internal control*

1.2.1 The system of internal control is based on an on-going process to identify, evaluate and manage the risks to the Council in the achievement of its objectives. It is a management responsibility to establish, maintain and ensure compliance with the internal control system. Assurance of the effective operation of the system of internal control can be sought from Internal Audit, External Audit, other review bodies and Management.

1.2.2 The system of internal control should:

- Set out clear responsibility for policy and decision-making.

- Establish the Council's objectives.
- Identify, evaluate and manage the risks which may impact on the Council's ability to meet its objectives.
- Ensure compliance with law, regulations, policies and procedures.
- Ensure the economical, efficient and effective use of resources.
- Ensure the accuracy and reliability of financial statements and other published information.

*Basis of the opinion on the internal control environment*

1.2.3 The opinion on the internal control environment is based on the work of the Internal Audit service during 2014-15, full details of which are provided in this report.

1.2.4 The work of Internal Audit is subject to review by the Council's External Auditors, Grant Thornton. In the Audit Plan for TMBC for the year ended 31 March 2015 Grant Thornton stated:

*Overall we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.*

1.2.5 Opinion of the Chief Internal Auditor on the Internal Control Environment:

In my capacity as the Chief Audit Executive, with responsibility for the provision of Internal Audit services to the Council, it is my opinion that Tonbridge & Malling Borough Council's system of internal control adequately contributes to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2014-15.

Whilst it has been identified that the authority has established adequate internal controls within the areas subject to Internal Audit review in 2014-15, there are areas where compliance with existing controls should be enhanced or strengthened, or where additional controls should be introduced. Where such findings have been made by Internal Audit, recommendations have been made to management to improve the controls within the systems and processes they operate. The results of all audit work completed are reported to the Audit Committee in accordance with the Internal Audit Charter.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

### **1.3 Internal Audit Staff Establishment**

- 1.3.1 The Internal Audit Team report to the Chief Internal Auditor and consists of the Audit Manager and two auditor posts. At the start of the financial year these posts were held by a 0.5FTE Senior Auditor and 1 FTE Audit Assistant. During the year both post-holders left the Council's employment for opportunities in Internal Audit with other organisations. The Council's Management Team approved the recruitment of two full time posts, graded as Trainee Internal Auditors with progression to Internal Auditors with experience. The two Trainee Internal Auditors were recruited and joined the Council in November 2014.
- 1.3.2 The Audit Manager post was shared with Gravesham Borough Council with the officer splitting her time equally between the two councils.

### **1.4 Net Staff Out-turn**

- 1.4.1 Staff resources available for the year **[Annex 1]** amounted to 531 days before leave and training. The team has recorded 50 days of sickness absence in the year; primarily due to the long term absences of the Chief Internal Auditor.

### **1.5 Annual Audit Plan**

- 1.5.1 The Internal Audit Plan for 2014-15 **[Annex 2]** was endorsed by Management Team in February 2014 and approved by the Audit Committee on 14 April 2014. The Plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.5.2 *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.
- 1.5.3 *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.
- 1.5.4 The team completed 85% of the plan during the year against a target of 95% completion. Four audits were not completed in the year; at the request of Management these have been included in the Audit Plan for 2015-16.

### **1.6 Assurance Work**

- 1.6.1 The Internal Audit team has primarily focused on assurance work. **[Annex 1]** reports that a total of 262 audit days have been spent on the completion of assurance work in 2014-15. This included days allocated to finalising audits commenced during the 2013-14 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 2014-15 are detailed at **[Annex 4]** of this report.

- 1.6.2 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and agreed with client management prior to finalising the report. Internal Audit follow-up on recommendations agreed and have an escalation process in place that ultimately results in reporting to Management Team and this Committee should a key control weakness remain.
- 1.6.3 Internal Audit has arrangements in place to follow up on all recommendations agreed with client management and to report to Management Team on a regular basis with the responses received. Ninety recommendations were due for implementation in 2014/15; we have completed the follow-up process for 78 to date and 100% of those have been implemented. Of the 12 outstanding recommendations we await some responses due to relevant officers being on leave and are therefore still in the process of confirming implementation with management.
- 1.6.4 Over 70 audit recommendations were made from assurance work undertaken in 2014-15 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.
- 1.6.5 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.

## **1.7 Consultancy Work**

- 1.7.1 The Internal Audit team spent a total of 55 days on consultancy work in 2014-15 allocated to the following areas of work:

### *Corporate projects and responsive work including advice & Information*

- 1.7.2 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. During the 2014-15 year the team has provided support to four such projects, primarily through the extraction and analysis of data. Details of the specific items are provided at **[Annex 5]**. 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.

- 1.7.3 The team offer ad hoc advice and information as and when requested by Council officers and responded to 16 requests for such advice throughout the year. This again 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.

*Anti-fraud activity*

- 1.7.4 The Internal Audit team plays a key role in the Council's anti-fraud activity and have spent 30 days on this type of work in 2014-15.
- 1.7.5 The team have continued to play a key role in the Council's corporate approach to the prevention and investigation of allegations of fraud, corruption and misconduct where appropriate. In addition Internal Audit resources were spent carrying out a proactive fraud-proofing review of the Council's arrangements to apply discounts, exemptions and disregards to council tax accounts and details of this are provided within **[Annex 3]** of this report.

**1.8 Other Audit Duties**

- 1.8.1 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.

**1.9 Training**

- 1.9.1 A total of 13 days has been spent on training in 2014-15 which was primarily spent providing induction training for the new Trainee Internal Auditors, but also included attending the 2014 Kent Audit Group Conference.
- 1.9.2 In addition to formal training, the Chief Internal Auditor and the Audit & Assurance Manager continue 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.

**1.10 Performance Measures**

- 1.10.1 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.
- 1.10.2 For 2014-15 the team has achieved the target set against six of the seven indicators measured. Actual performance of the team against these measures is provided at **[Annex 6]**.

1.10.3 It is good practice to review performance measures periodically to ensure the right things are measured and that targets remain achievable but appropriately challenging. With that in mind it is proposed that for 2015/16 the target for the performance measure in relation to percentage of productive time be increased from 65% to 80% in line with both historic performance and industry standards.

### **1.11 General Internal Audit Development**

1.11.1 The Accounts and Audit Regulations 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 can be found elsewhere on this agenda.

### **1.12 Partnership Working**

1.12.1 From 1 December 2010 the Council operated a partnership arrangement whereby operational management responsibility for the Internal Audit team at Tonbridge & Malling Borough Council was provided by the Audit & Assurance Manager employed by Gravesham Borough Council.

1.12.2 Although the Partnership arrangement between the Council and Gravesham Borough Council continued for 2014/15, Gravesham gave notice to terminate this arrangement on 20 March 2015 with effect from 15 May 2015. As a result, from 18 May 2015 a six month pilot arrangement to provide Internal Audit management has been entered into with Kent County Council.

### **1.13 Biannual Client Satisfaction Survey**

1.13.1 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.

1.13.2 The survey was issued to 32 Directors, Service Managers and Senior Managers within the Council. Responses received provided extremely positive assurance that the Council is receiving an effective audit service, whilst also identifying opportunities to develop the service further.

### **1.14 Internal Audit Summary**

1.14.1 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 played a key role in maintaining the governance and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.

1.14.2 Partnership working arrangements with Gravesham Borough Council successfully continued for 2014/15. However, as noted at 1.12.2 above this arrangement ceased in May 2015.

1.14.3 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 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.

1.14.4 During the forthcoming year the team will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the Council.

### **1.15 Legal Implications**

1.15.1 The Accounts and Audit Regulations 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 is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note to the PSIAS, published by CIPFA.

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

1.16.1 There are no direct financial implications from this report.

### **1.17 Risk Assessment**

1.17.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its internal control arrangements.

Background papers:

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Nil

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