

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

14 April 2014

### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 CHIEF INTERNAL AUDITOR'S INTERIM REPORT

##### Summary

**This report provides the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the control environment of Tonbridge & Malling Borough Council as required by Public Sector Internal Audit Standards.**

#### 1.1 Background

- 1.1.1 The Accounts and Audit (England) Regulations 2011 require that the Council must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.
- 1.1.2 Guidance to the Regulations recognises that compliance with the Public Sector Internal Audit Standards (PSIAS) produced by CIPFA meets the requirements of the regulations.
- 1.1.3 These standards require the Chief Internal Auditor to deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement.
- 1.1.4 The contents of this report must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control.
- 1.1.5 The report must also incorporate : -
- the opinion;
  - a summary of the work that supports the opinion; and
  - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

- 1.1.6 Due to the timing of the presentation of the Annual Governance Statement the opinion of the Chief Internal Auditor is given on the outcome of work carried out to date in the current financial year. However, this will include work that is currently ongoing during the last quarter. A full annual report will be presented to Members at the June meeting of this Committee.

## **1.2 Quality Assurance and Improvement Programme (QAIP)**

- 1.2.1 The purpose of a QAIP is to enable all aspects of internal audit activity to be measured for conformance against the Public Sector Internal Audit Standards (PSIAS).
- 1.2.2 A self-assessment has been carried out against these standards and a series of action points have been identified in order to achieve full compliance.
- 1.2.3 As part of this exercise the QAIP process was reviewed to ensure that it met the requirements of the standards. The audit process has a number of checks in place to ensure that quality is constantly monitored within the section as well as seeking quality assurance from stakeholders.
- 1.2.4 An element of the PSIAS is to undergo an independent external assessment once in every five-year period. Prior to the new standards being introduced the section underwent a satisfactory peer review carried out by Gravesham Council. The external auditors have regularly given a positive opinion on the adequacy of the Internal Audit provision on a regular basis.
- 1.2.5 In the interim period the Chief Internal Auditor will continue to report to the Audit Committee on the effectiveness of Internal Audit based upon the performance measures already in place.
- 1.2.6 The Management Team and Audit Committee are required to review the effectiveness of Internal Audit on an annual basis. Both concluded in the last review that took place in June 2013 that the level of Internal Audit for 2012/13 was "good".

## **1.3 Governance Framework**

- 1.3.1 The Council has adopted a Local Code of Corporate Governance based upon the principles set out in the CIPFA/SOLACE publication Delivering Good Governance in Local Government: Framework and Guidance Note for English Authorities (2012).
- 1.3.2 The Local Code is reviewed on an annual basis and identifies how the Council will meet the principles in the guidance. This document is used as the basis for consideration of the Annual Governance Statement. This statement is reported to Members as a separate item to this Committee.

- 1.3.3 The Local Code was reviewed in June 2013. It is considered that the Council has an effective corporate governance framework by meeting the requirements of the CIPFA/SOLACE framework.

## **1.4 Risk Management**

- 1.4.1 The Council has a Risk Management Strategy that sets out the responsibilities and procedures in place for the management of risk. This strategy is reviewed on an annual basis and is considered to meet the requirements for ensuring that a robust system of risk management is in place.
- 1.4.2 Managers are required to review operational risk registers on a regular basis and any significant risks are reported to the Audit Committee with an explanation of action taken to minimise the risk. This process ensures that significant risk is managed in accordance with the Risk Management Strategy. All identified significant risks and control actions have been reported to Members.
- 1.4.3 The recent flooding required the Council to put the emergency plan into action. The Council were able to fulfil their obligations within their remit for service provision.
- 1.4.4 Members of the Council were given the opportunity to attend a training session on risk management provided by Zurich Municipal.

## **1.5 Work Supporting the Opinion**

- 1.5.1 The work of the Internal Audit Section is identified on an annual basis by undertaking a risk based assessment of needs and matching this to available resources.
- 1.5.2 The Audit Plan is agreed by Management Team and the Audit Committee as well as being shared with the Council's external auditors.
- 1.5.3 Progress against the plan is reported to Members on a regular basis as well as seeking agreement to any plan changes.
- 1.5.4 Members of the Audit Committee are given regular reports on the work undertaken and the outputs of this work. The compliance work is given a level of assurance and any red opinions are reported on in detail with details of action taken to increase internal control.
- 1.5.5 The work carried out to date by the Internal Audit Section is reported to Members elsewhere on this agenda. Any significant concerns are required to be drawn to the attention of Members and would affect the opinion of the Chief Internal Auditor. There have not been any significant concerns identified in the work carried out that would have a material effect on the accounts.
- 1.5.6 There have not been any other concerns raised that could indicate a significant breach of the control environment.

- 1.5.7 The Confidential Reporting Code “Whistleblowing” exists to enable concerns to be raised in accordance with the Public Disclosure Act 1998.
- 1.5.8 The outcomes of any investigations are reported to Members of this Committee together with any disciplinary or legal outcome.
- 1.5.9 There have not been any concerns raised under the “Whistleblowing Code” during 2013/14.
- 1.5.10 The Code was last endorsed by General Purposes Committee in June 2013. Another review has taken place and will be presented to the next meeting of the General Purposes Committee.
- 1.5.11 Members of staff were also given the opportunity to undertake some on-line fraud awareness training. A total of 151 members of staff undertook the training which had a ten question test at the end of it. A total of 128 participants passed with an average score of 89.5%. A total of 13 participants who failed the test (less than 80%) were able to take an additional 5 questions and 12 passed with an average score of 87.7%.
- 1.5.12 Chief Officers are required to sign a service assurance statement at the year end to provide evidence that they believe that the internal control environment has operated satisfactorily within their service.
- 1.5.13 These statements are reviewed annually and are intended to provide assurance from Chief Officers on all areas that they are responsible for. A copy of the latest version of this statement is attached. **[Annex 1]**
- 1.5.14 In addition the Chief Internal Auditor is required to complete an overall assurance statement.
- 1.5.15 The deadline for completion of these statements is midday on 4 April 2013. A verbal update will be given to Members at this Audit Committee on the outcome of the statements.
- 1.5.16 Management and Members are required to give assurance to the External Auditor that that the Council is compliant with International Auditing Standards. These assurances are dealt with in separate reports to this meeting.
- 1.5.17 There were no areas of concern arising from the statements confirming compliance with these standards.
- 1.5.18 The Council has a sound budgetary control procedure that carries out a comparison between actual and budgeted expenditure and income on a monthly basis. Any significant discrepancies require an explanation.
- 1.5.19 Both the budgetary control reports and explanations of differences are regularly reported to Management Team. There have not been any significant issues that are considered to be likely to have a material effect on the accounts.

## **1.6 Conformance with PSIAS**

1.6.1 The Internal Audit Section cannot achieve compliance with the PSIAS standards until the Council has undergone an external independent inspection. It is anticipated that this inspection will be undertaken in 2015/16. Until then the Internal Audit Section will be working towards full compliance with the standards.

## **1.7 Opinion**

1.7.1 Based upon the work carried out and supporting evidence the opinion of the Chief Internal Auditor is that: -

- **The Council has maintained an adequate and effective internal control environment during 2013/14.**

## **1.8 Legal Implications**

1.8.1 This report complies with the requirements of the Accounts and Audit (England) Regulations 2011.

1.8.2 It also provides evidence for Members of the Audit Committee to assist their consideration of the Annual Governance Statement as per the Regulations. In addition it confirms that Internal Audit are working towards compliance with the PSIAS.

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

1.9.1 The Council must meet the legal requirement for an adequate system of Internal Audit in order to minimise the risk of loss through fraud and error. It must also ensure that the resources available can meet the level of audit required. The Audit Plan considers risk in order to achieve this balance.

1.9.2 A failure to provide a service that meets the requirements of the Accounts & Audit Regulations would lead to additional external inspection and additional costs to the Council.

## **1.10 Risk Assessment**

1.10.1 The audit plan is risk based and is intended to add to the overall risk management system of the authority. The relatively low levels of fraud and error suggest that this objective is being successfully met whilst maintaining an anti-fraud culture.

## **1.11 Equality Impact Assessment**

1.11.1 No equality impact issues have been identified through this report.

Background papers:

contact: David Buckley

PSIAS produced by CIPFA (2012)  
 CIPFA/SOLACE Delivering Good Governance in Local  
 Government: Framework and Guidance Note for  
 English Authorities (2012).

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	Information item
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	Information item
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

*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.*