

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

16 June 2014

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 ANNUAL INTERNAL AUDIT REPORT 2013-14

This report informs Members of the Internal Audit work completed during 2013-14, 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.”

1.1.2 From the 2013-14 financial year, proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note to the Public Sector Internal Audit Standards. The PSIAS requires Internal Audit to report periodically to senior management and Members on the internal audit activity’s purpose, authority, responsibility and performance relative to its plan. The PSIAS also require the Chief Audit Executive 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 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 and an Audit Assistant post. The Senior Auditor post was held by two officers in a job-share; on 31 January 2014 one of the officers left the Council’s employment.

1.2.2 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 **[Annex 1]** amounted to 665 days. The team has recorded fourteen days of sickness absence in the year; this figure includes time taken by officers to attend medical appointments.

1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2013-14 was presented to Management Team on 12 March 2013 and was approved by the Audit Committee on 8 April 2013 and 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 97.56% of the plan during the year against a target of 95% completion. The audit not completed was deferred until the beginning of the 2014-15 year at the request of management.

1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work. **[Annex 1]** reports that a total of 392 audit days have been spent on the completion of assurance work in 2013-14. This included days allocated to finalising audits commenced during the 2012-13 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 2013-14 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 2014-15 Internal Audit plan to date.
- 1.5.3 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.

- 1.5.4 While 100% of all recommendations followed-up in 2012-13 were found to have been satisfactorily addressed, the proportion has fallen for 2013-14 to 93.3%. Internal Audit has put into place arrangements to report to Management Team on a quarterly basis, providing details of all recommendations due and responses received from management; it is anticipated this process will result in a higher proportion of recommendations being addressed within the agreed timescales in future.
- 1.5.5 Over 110 audit recommendations were made from assurance work in 2013-14 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.
- 1.5.6 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 74 days on consultancy work during 2013-14; this time was allocated to the following areas of work:

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

- 1.6.2 The 2013-14 Internal Audit Plan included an allowance of 90 days (inclusive of audit management resources) for conducting Value for Money / Efficiencies work as directed by the Council's Management Team. The team has supported the Council's Scrutiny Review programme, conducting research and analysis to support two specific reviews which have been reported through the Council's Management Team and Overview and Scrutiny Committee.
- 1.6.3 When one of the Senior Auditors left the Council in January 2013, It was agreed with the Director of Finance & Transformation that the team would not do any more specific corporate consultancy projects, and would instead use the remaining resources available to complete the assurance audit reviews on the plan; as such it was not necessary to formally revise the plan despite reducing the level of available audit resource.

Projects, Responsive Work and Advice & Information

- 1.6.4 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. In 2012-13 the team

introduced arrangements to record the nature and volume of requests received to enable more detailed monitoring and reporting in future years.

- 1.6.5 During the 2013-14 year the team has provided support to five 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.
- 1.6.6 The team offer ad hoc advice and information as and when requested by council officers and responded to 36 requests for such advice throughout the year. 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.
- 1.6.7 Anti-fraud activity
- 1.6.8 The Internal Audit team plays a key role in the Council's anti-fraud activity and have spent 46 days on this type of work in 2013-14.
- 1.6.9 The team has led on the investigation of the matches received through the 2013-14 National Fraud Initiative (NFI). 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 September 2013, a Fraud Awareness e-learning package was distributed to all staff which is designed to enhance awareness of fraud risks and the reporting arrangements across the Council. In addition Internal Audit resources were spent carrying out a proactive fraud-proofing review of the Council's Recruitment Vetting Arrangements and details of this 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 was responsible for organising the 2013 Kent Audit Group Conference.

1.8 Training

- 1.8.1 A total of five days has been spent on formal training in 2013-14 including attendance on Emergency Planning and Individual Elector Registration sessions. All members of the team attended the 2013 Kent Audit Group Conference which included training sessions Lean audit methodologies and the Data Protection Act.

1.8.2 In addition to formal training, the Chief Internal Auditor and the Audit 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.

1.9 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.

1.9.2 For 2013-14 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 6]**.

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.

1.11.2 A formal review of the partnership was carried out in July 2013 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.

1.12 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. Responses received provided positive assurance that the Council is receiving an effective audit service, whilst also identifying opportunities to develop the service further.

1.13 Public Sector Internal Audit Standards

- 1.13.1 From 1 April 2013 the team have worked to the Public Sector Internal Audit Standards (PSIAS) for the UK Public Sector and CIPFA's Local Government Application Note to the Standards; together forming proper practice for Internal Audit in Local Government. In July 2013, the Chief Internal Auditor conducted a self-assessment against the Standards; the results of which were reported to the Audit Committee in September 2013.
- 1.13.2 A self-assessment conducted in May 2014 confirmed that the team are now considered to be working in compliance with the PSIAS. One action remains; Internal Audit teams are required to be externally assessed against the PSIAS once in a five-year period. Consideration is currently being given to scheduling an assessment in the 2015-16 financial year.

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 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.
- 1.14.2 Partnership working arrangements with Gravesham Borough Council have successfully continued, facilitating service developments as well as an ongoing cost saving for the Council.
- 1.14.3 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 in April 2014 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 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 2013-14 financial year 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:

Nil

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