

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 HALF YEAR INTERNAL AUDIT REPORT 2014-15

Summary

This report informs Members of the Internal Audit work completed for the period April to September 2014. Due to publication deadlines, this report was prepared in mid-September; as such outturns detailed below and the performance measures include estimates for the full six months.

Members are asked to note that the current staffing situation will require a revision of the Annual Internal Audit Plan agreed by the Committee in April and a revised plan will be presented to the January meeting of the Committee.

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*. 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 the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*.

1.2 Internal Audit Staffing

1.2.1 The Internal Audit Team report to the Chief Internal Auditor and consists of the Audit Manager, a Senior Auditor post (0.5FTE) and an Internal Audit Assistant post. The Audit Manager post is shared with Gravesham Borough Council with the officer splitting her time equally between the two councils. The Chief Internal Auditor has been absent due to ill-health since late May and in his absence, the Chief Financial Services Officer has been overseeing the strategic management of the Internal Audit function.

- 1.2.2 In August the Internal Audit Assistant left the Council's employment, and the recruitment of a Trainee / Internal Auditor is underway. Due to this vacancy and the absence of the Chief Internal Auditor, the team will not be able to complete all work detailed on the Annual Internal Audit Plan for 2014-15.
- 1.2.3 The team are focussing on the highest risk areas of the plan to ensure best use is made of the available resources. As such resources are being directed to control assurance work to ensure that all assurance reviews on the original plan can be completed to enable the Chief Internal Auditor to provide an opinion on the overall control environment to support the Annual Governance Statement. This reduces the flexibility for the team to provide consultancy services, including those set out on the original audit plan; such activities will have to be considered on a case by case basis. Once an appointment has been made to the Trainee / Auditor post a revised version of the plan will be presented to the Audit Committee for approval; it is anticipated this will be the January meeting of the Committee.

1.3 Net staff Out-turn

- 1.3.1 Net staff resources available to September 2014 as detailed at **[Annex 1]** amounted to 247 days. The team has recorded 23 days of sickness absence in the first half of this year; primarily this represents the long-term absence of the Chief Internal Auditor.

1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2014-15 was presented to Management Team on 25 March and was approved by the Audit Committee on 14 April and is attached at **[Annex 2]** for Members information. The plan sets 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 reviews 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 During the first six months of the 2014-15 financial year the team completed 42% of the plan and a further 15% is currently underway; this is comparable to the same point in the 2013-14 year at which the team had completed 39% with a further 14% current, and went on to complete 97.6% of the final plan at year end.

1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work. **[Annex 1]** reports that a total of 132 audit days have been spent on the completion of assurance work in the first half of 2014-15. As experienced in previous years, a number of programmed audits relating to the 2013-14 audit plan were not fully completed in that financial year and have required finalisation in 2014-15. Further details of the planned audit work completed during the year can be found in **[Annex 3]**. Where an assurance review has been given, the definitions of audit opinions in use are detailed at **[Annex 4]** of this report.
- 1.5.2 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. 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 to help ensure prompt action is taken to address weaknesses identified in Internal Audit reviews.

1.6 Consultancy Work

- 1.6.1 As shown at **[Annex 1]** the Internal Audit team has spent a total of 21 days on consultancy work in the first half of 2014-15.
- 1.6.2 *Projects, responsive work and Advice & Information*
- 1.6.3 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. During the first half of the year the team has provided support to a number of 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.
- 1.6.4 *Anti-Fraud Activity*
- 1.6.5 The Internal Audit team plays a key role in the Council's anti-fraud activity and have spent 8 days on this type of work in the first half of 2014-15.
- 1.6.6 The team co-ordinates the Council's participation in the National Fraud Initiative (NFI) ensuring data is extracted and uploaded for matching, and liaising with the Investigations Team and other relevant departments to ensure matches are investigated. The results of NFI exercises are reported through the Annual and Half Year Fraud Reports to the Finance, Innovation and Property Advisory Board.

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. In addition, the team has continued to be represented on the Kent Audit Group.

1.8 Training

- 1.8.1 Though no time has been spent on formal training in the first half of the 2014-15 financial year, the Audit Manager continues 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 Internal Audit Performance

- 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 Performance has been measured against each of the seven performance measures and an update on performance is provided for Members information at **[Annex 6]**.

1.10 Legal Implications

- 1.10.1 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 2014-15 financial year is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the Public Sector Internal Audit Standards.

1.11 Financial and Value for Money Considerations

- 1.11.1 An adequate and effective internal audit function provides the Council with assurance on the proper, economic, efficient and effective use of Council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.

1.12 Risk Assessment

- 1.12.1 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

Neil Lawley
Chief Financial Services Officer

contact: Katey Arrowsmith
Audit Manager