

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

28 NOVEMBER 2011

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. INTERNAL AUDIT – SIX MONTHLY INTERIM REPORT

1.1 Issue for Decision

1.1.1 To consider the work of the Internal Audit team over the six-month period, April 2011 to September 2011 and note the outcomes of the internal audit work.

1.2 Recommendation of the Head of Internal Audit Partnership

It is recommended that the Audit Committee:

1.2.1 Note the results of the work of the Internal Audit team over the period April 2011 to September 2011 as listed at Appendix A.

1.2.2 Note that, during the period April to September, 7 areas were audited where 'substantial' or 'high' control assurance was in place at the time of the audit. Four projects did not have a control assessment (Appendix B).

1.2.3 Note that, 6 areas were audited where only 'limited' control assurance was in place at the time of the audit (Appendix C).

1.2.4 Note the improvement in the internal control environment, identified during the audit follow-up process – as detailed within Appendix D.

1.2.5 Note that there are no important control issues arising from the internal audit work which are outstanding and need to be brought to the attention of Members.

1.3 Reasons for Recommendation

1.3.1 The principal objective of the Internal Audit service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council.

- 1.3.2 Internal Audit is a statutory function under the Accounts and Audit Regulations 2011 which state 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 the proper practices in relation to internal control'.
- 1.3.3 The adequacy of the internal control environment is a key governance issue. Therefore, the Audit Committee needs to be satisfied with the audit arrangements and to be aware of the issues arising from audit work.
- 1.3.4 Within its Terms of Reference the Audit Committee needs to 'review summary internal audit reports and the main issues arising and seek assurance that remedial action has been taken where necessary'. The Audit Committee therefore needs to be satisfied that the audit process is working efficiently and that management is taking the necessary action to implement agreed audit recommendations.
- 1.3.5 A total of 17 audit projects were completed between April and September 2011 (one of which was a piece of 'consultancy' work – referred to at the end of Appendix C). This represents 47% of the target for the year.
- 1.3.6 The audit team performed extremely well during the six month period, meeting their performance targets within the Reach the Summit performance management system and being given the internal award for most sustained improvement/top team on two occasions.

1.4 Reporting

- 1.4.1 The six-monthly Interim Report is principally intended to inform the Committee of the work of the Internal Audit team during the first half of the financial year. An annual report, which will be provided to the Committee in June 2012, will provide a more detailed review of internal audit work and will include an assessment of the adequacy of the Council's overall internal control environment, in support of the Annual Governance Statement.

1.5 Assurance Assessments

- 1.5.1 Each audit review includes an assurance assessment in terms of the adequacy of controls. This represents 'the audit opinion'. Appendix shows that, of the 17 projects completed during the six month period, one project identified that a 'high' level of control assurance was in place at the time of the audit, 7 projects identified 'substantial' assurance, and 6 identified 'limited' assurance. There were no areas where 'minimal' assurance was in place. Four further audit projects did

not receive an assurance assessment as this was not considered to be appropriate to the scope of the project. A table, showing the definitions of the assurance categories, is attached at Appendix E.

1.6 Follow-Ups

- 1.6.1 A follow-up to each report is completed, usually three to six months after the date of issue of each original report. The follow-up allows the adequacy of controls to be reassessed. Management is expected to have taken the necessary action to address the control weaknesses before the follow-up is undertaken. The results of follow-ups carried out to date (7 November) are summarized within Appendix D.
- 1.6.2 All of the follow-ups confirmed that control assurance had either been maintained at 'substantial' or more importantly that the control assurance had increased from 'limited' to 'substantial' following the implementation of the agreed recommendations.
- 1.6.3 One of the follow-ups related to an audit of Licensing, for which the original report was issued in January 2011; at that time only limited control was found to be in place. This was initially followed-up in June 2011, where a lack of effective management action meant that the control assurance had not changed. This was brought to the attention of the Head of Service and his Director. The second follow-up, which was carried out on the 3 November 2011, confirmed that virtually all of the recommendations had been fully implemented and substantial progress had been made. If this had not been the case a separate report would have been made to this Committee meeting, which the Head of Service would have been invited to attend.

1.7 Alternative Action and why not Recommended

- 1.7.1 The Internal Audit team completed a total of seventeen audit projects during the six-month period April to September 2011. The audit work has led to control improvements in the areas that were reviewed.
- 1.7.2 Although the audit work identified some areas where controls were in need of improvement, it is anticipated that the responsible managers have since taken the necessary action to address those weaknesses. This will be tested as part of the follow-up process.
- 1.7.3 Members of the Audit Committee need to have an awareness of the work of Internal Audit. Therefore, there is no alternative action.

1.8 Impact on Corporate Objectives

- 1.8.1 The Internal Audit service contributes towards the Strategic Plan

through its role as an independent and objective appraisal and consulting function, which provides the means to evaluate the adequacy of the controls that management has put in place to achieve objectives for the delivery of strategic priorities and operational services.

1.8.2 The role of Internal Audit can be seen to underpin aspects of the Strategic Plan by reviewing and reporting on the processes by which corporate objectives are delivered to the public (and other stakeholders), as an aid to management.

1.9 Risk Management

1.9.1 Internal Audit contributes to the overall risk management environment in reviewing the adequacy of controls that management has put in place to manage risks.

1.10 Other Implications

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.10.1 The work of Internal Audit includes the examination of all aspects of internal control but inevitably contains a strong emphasis on reviewing the adequacy of financial controls.

1.10.2 Each audit involves the participation of the staff that have responsibility for the various systems and processes that are being audited. The results of Internal Audit work are likely to lead to changes in the procedures operated by those staff.

1.10.3 Internal audit is a statutory requirement under the Accounts and Audit Regulations 2011.

1.11 Conclusions

1.11.1 This Interim Report highlights the work of the Internal Audit team between April and September 2011 and provides assurance to the Audit Committee that an effective system of internal audit is in place.

1.12 Relevant Documents

1.12.1 Appendices

Appendix A – Internal Audit reports/work completed April to September 2011

Appendix B – Audits completed where 'substantial' or 'high' control assurance was in place at the time of the audit

Appendix C – Audits completed where only 'limited' control assurance was in place at the time of the audit

Appendix D – Summary report of follow-up assurance assessments

Appendix E – Definitions of assurance - table

1.13 Background Documents

1.13.1 The individual Internal Audit reports for those projects which are listed in Appendix A, are the background documents for this report.

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because:

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Wards/Parishes affected:

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