



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

NOVEMBER 2013

Date: 27th November 2013

Introduction

- 1.1 The Welland Internal Audit Consortium provides the internal audit service for Melton Borough Council and has been commissioned to provide 235 audit days to deliver the 2013/14 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Governance Committee to scrutinise the performance of the Internal Audit Team and – of equal significance – to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the Committee with the information, on progress in delivering planned work and on performance of the Consortium, which it requires to engage in effective scrutiny.

Progress with the Annual Audit Plan & Internal Audit Performance

- 2.1 At the date of reporting Final Reports have been issued in respect of two planned audits: Managing Absence and Provision of Housing Grants; and a further Final Report has been issued in respect of a consultancy exercise commissioned by the Chief Executive. Draft Reports have been issued in respect of planned audits of Cash Handling; Economic Development; and Tenancy Fraud. Work is in progress on a further three planned assignments: Data Management; Waste Management & Recycling; and Ordering Goods & Services as well as a consultancy exercise on the Management of NFI processes. The Audit Manager has taken the decision to ensure that, as far as is possible, all 2013/14 assignments are delivered in line with new working arrangements developed following the External Quality Assessment (see 3.2 below). As a result the issue of draft reports was delayed while new arrangements for clearing such reports were developed.
- 2.2 Appendix 2 to this report shows the assurance that the work in hand seeks to provide: it is intended that this Appendix will be developed into a key aid to the Committee as it assesses the range and adequacy of the assurance offered by the Consortium's work and determines whether there is a need for additional – or different assurance. Appendix 3 to this report summarises the key issues raised by Final Reports: it is intended that this will provide developing guidance to the Committee on the development of the Annual Governance Statement.
- 2.3 Relevant Performance Indicators have been developed to provide the Committee with an objective basis upon which to assess the performance and effectiveness of the Consortium. Table 1 shows performance against targets as at week 32 (8th November 2013) the latest date practical to allow consistent reporting for this meeting. At this point in the year the data available is limited but the intention is to maintain a standard template to allow for ready tracking of performance over time.

Ref	Indicator	Target	Current Performance
IA1	Chargeable Days	95%	91% @ week 32
IA2	Audits within Budget	95%	50% One of the two audits completed (Managing Absence) identified unresolved control issues which required additional unplanned work
IA3	Audits Completed on Time	95%	100%
IA4	Customer Satisfaction	3.6	N/A Returns awaited
IA5	Recommendations Implemented	95%	N/A
IA6	Delivery of Planned Work	100%	N/A year end indicator

Review of Internal Audit – Delivery of Improvement Plan

- 3.1 The External Quality Assessment commissioned by the Welland Internal Audit Board to assess any gaps in conformance with the new Public Sector Internal Audit Standards identified a number of areas where the Consortium needs to change the way in which it works and the Welland Board has approved an Improvement Plan which aims to deliver all necessary improvements by the end of the current financial year.
- 3.2 Details of progress on implementing the Improvement Plan are shown as Appendix B. That appendix also indicates the differences that Members can expect to see. In the context of progress in delivering the 2013/14 Plan the important points are that:
- The planning of individual audit assignments now requires clients to focus more clearly on the important risks for which assurance is required. This should result in the delivery of reports that are more useful to the Committee;
 - A much more transparent approach has been developed to the clearance of Draft Reports. The process requires the Officers responsible for the area being audited to engage in a process to ensure that the Auditor has been provided with all necessary and relevant information and has interpreted that information correctly. This approach should mean that the Final Reports issued to Directors are “right first time” and improve the efficiency of service delivery. A decision was taken to delay clearance of Draft Reports until the new methodology was developed and put in place: this has had a short-term impact on information delivered to the Committee about the effective management of the Council’s risks;

- To provide clearer information to the Committee about risk management the approach to Assurance Ratings has been modified. A “Marginal” rating is no longer an option: instead there will be two acceptable ratings – “Substantial” and “Sufficient” and two unacceptable ratings – “Limited” and “No”. The Assurance Rating for each assignment will be based on two evidenced criteria – the design of the control framework and the extent of compliance with those controls. For consistency, the Audit Manager will be working with relevant clients to “reset” the Assurance Ratings for the two Final Reports issued earlier in the year.

3.3 Performance statistics show that the work required to implement the Plan has not had a material impact on the audit days delivered to the Council (delivery is down from the 92% achieved @ 24 but remains above the 90% originally targeted). It is not anticipated that the remaining work required will involve high levels of management input. On that basis delivery of the Annual Plan will not be affected.

Appendix 1: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium is undertaking a programme of work agreed by the council's senior managers and approved by the Governance Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that the Consortium are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to the Consortium's attention. As a consequence, the Governance Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to the Consortium's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Consortium endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Appendix 2: Work in Progress - Development of Assurance for 2013/14

Assignment	Assurance Sought	Status	Assurance Rating
Financial Risks			
Cash Handling	Appropriate and proportionate controls are in place and operating effectively to provide for the security of cash received and for the accurate and timely accounting of cash received	Discussion Draft Issued	N/A
Ordering Goods & Services	Appropriate use is made of Purchase Orders to mitigate the risks of fraud, error or poor budgetary control. The assignment has been designed to allow for the identification of budgets where there is significant non-compliance with policy; to determine causes; and, wherever possible promote proper compliance with policy.		
Fraud Risks			
Managing Tenancy Fraud	Effective and proportionate controls have been established to mitigate the Council's exposure to the risks of tenancy fraud; and that those controls operate as specified.	Executive Draft Issued	N/A
Managing NFI	The Council has developed cost-effective arrangements for supporting the NFI and that possible frauds identified through the data matching process are subject to appropriate scrutiny.	Field Work Complete	N/A
Governance & Performance Risks			
Managing Absence (Follow Up)	Recommendations arising from the 2011/12 Audit have been implemented and have delivered the desired outcomes.	Final Report	Marginal
Data Management	The Council has put in place appropriate arrangements: for the security; organisation; timely and secure disposal of redundant data in whatever format that data was received, processed and stored; and for ensuring compliance with regulation and guidance in respect of data sharing and publication.	Work in Progress	N/A


Service Delivery Risks			
Economic Development	Processes and procedures in place allow the Council to demonstrate transparency of decisions to support - or withhold support from - individuals and local businesses; and that all such decisions have been evidence based and consistent with the Strategy and other relevant policies	Discussion Draft Issued	N/A
Housing Improvement Grants	That the fraud risks associated with the provision of grants are subject to appropriate mitigation	Final Report	Adequate
Waste Management	Appropriate controls are in place to ensure delivery of contract outcomes and provide for the management of income flows relating to disposal of recyclates and recycling credits	Work in Progress	N/A

Notes

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Significant	There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently.
Adequate	The control framework is basically sound but either <ul style="list-style-type: none">• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or• testing provides evidence of non-compliance sufficient to weaken the effect of some controls.
Marginal	Either <ul style="list-style-type: none">• the designed framework of controls would, if operated consistently manage or mitigate identified risks but testing demonstrates significant levels of non-compliance with prescribed processes and procedures; or• although the designed framework has material limitations, testing provides evidence of consistently high levels of compliance with prescribed processes and procedures.
Limited	There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures
No	The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures.

Appendix 4: Summary of Audit Final Reports 2013/14 – Key Issues Arising

Assignment	Area Reviewed	Assurance Rating	Strengths & Weaknesses	Direction of Travel	Budget Days	Actual Days
Provision of Housing Improvement Grants	Arrangements to mitigate risks of fraud by grant applicants, contractors or Council employees	Adequate	<p>Strengths Controls against fraud risks are integrated into the processes for reviewing grant applications and confirming that work ordered has been completed to required standards.</p> <p>Areas for Improvement Arrangements for separation of duties compromised during periods of (planned or unplanned) manager absence.</p> <p>There are is no formal process to allow an Officer or Member applying legitimately for a grant to declare “an interest”. The absence of such an arrangement might expose an individual to allegations of abuse of position.</p>	N/A	12	12
Managing Absence (Follow-Up)	Implementation of recommendations; e-based arrangements for recording and authorising annual leave; and developing control arrangements to support the flexitime system.	Marginal	<p>Strengths Robust arrangements to deal with absence returns are under clear HR control.</p> <p>Areas for Improvement Incomplete implementation of agreed recommendations; lack of robust arrangements to record approved annual leave</p>		1	3