



MELTON BOROUGH COUNCIL
INTERNAL AUDIT UPDATE
JANUARY 2014

Date: 28th January 2014.

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 and undertake other work on behalf of the client.
- 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.

Performance

2.1 Will we deliver the Audit Plan?

Yes. The Head of Consortium provided the Welland Board, at its last meeting, with a work plan for the final quarter of 2013/14 which demonstrated that the resources are in place to deliver the remainder of the Plan by the end of the financial year. Each remaining assignment has been allocated to a specific Auditor or audit contractor. The agreed scheduling is shown in Appendix 2 and it is intended that Discussion Drafts will have been issued for all assignments by 31st March. This will represent a significant improvement on the position at the end of 2012/13.

The most recent performance reports, for the year to 3rd January 2014 (week 40) show that the Council has already received 88% of its commissioned days: this includes time spent on the completion of the 2012/13 Plan; on the Improvement Plan; and on other work to support clients and this Committee. The Consortium has made provision to deliver sufficient additional days to deliver all commissioned assignments by making use of various budget savings to buy in audit contractors; by cutting out various non-chargeable work and through more direct and effective management of Auditor's time. About 85 more days will be delivered than were commissioned but there will be no additional cost to the Council because procurement was cost neutral.

2.2 Are we delivering to budget?

There have been some overruns on individual assignments. Assignments using the new way of working developed this year have taken longer than originally planned. This is because Audit Managers have been spending more time in coaching and providing direct support to the Auditors to ensure that they understand the new way of working and can provide a quality service to clients.

Appendix 2 provides a detailed analysis of actual time spent on assignments to date and shows how time has been spent on the completion of the previous year's work and other unplanned work.

2.3 Are we delivering on time?

There have been delays in completing individual assignments. This is because the Head of Consortium was committed to work on the Improvement Plan and was not available to review Auditors' work on a timely basis. Time spent on training and coaching also meant that it took Auditors longer than originally planned to complete the fieldwork element of assignments. Appendix 3 demonstrates that the work required of the Head of Consortium to deliver the Improvement Plan is substantially complete and will not impact further on his availability to review work and approve the issue of audit reports.

2.4 Is productivity satisfactory?

The most recent information available (week 40) demonstrates that the Consortium is meeting its original target of spending 90% of time on chargeable activities but is failing to meet the more challenging target of 95% subsequently set by the Committee. Implementing the Improvement Plan has had an adverse, if short-term, impact on productivity.

2.5 Are we satisfying customers?

Customer Satisfaction Questionnaires are only issued after the completion of audit assignments. It is therefore too soon to have more than limited objective evidence about clients' satisfaction with the new working arrangements. However, the CSQs received so far have rated our performance as Good or Excellent. In addition, feedback obtained both in the CSQs and informally, indicates that auditees find the new way of working clearer and less time consuming than in previous years: auditees have said that they found the reports to be clearer and better focussed on ways of reducing risk.

2.6. Are there any emerging issues from audit work that impact on the Council's Control Framework?

Executive Reports issued in respect of Cash Handling; Economic Development; Managing Absence; Provision of Housing Grants; and Tenancy Fraud Risks have raised no significant issues of concern.

Discussion Drafts in respect of Waste Management & Recycling and Managing NFI have raised no significant issues to date.

2.7 How are Audit Recommendations being progressed?

There are currently nine outstanding recommendations arising from old style audits. New working practices are designed to produce fewer but more material recommendations and new arrangements, developed to promote timely implementation of those recommendations are codified in the Internal Audit Protocol referred to below.

2.8 Other Matters

The Consortium has now substantially completed the actions set out the Improvement Plan adopted in response to the RSM Tenon review: it remains only for the Consortium to

- agree with the Welland Board the way in which future Quality Assurance Assessments are to be undertaken; and
- commission software changes so that report templates reflect the new ways of working and reporting. Changes will be implemented as part of the next scheduled system upgrade, early in 2014/15, to avoid unnecessary costs.

The Board is now working to satisfy itself that the actions taken by the Consortium have delivered the desired outcomes.

As part of the Improvement Plan, an Internal Audit Protocol has been developed setting out the respective responsibilities of management and auditors in respect of the planning and conduct of audit assignments; reporting the results of assignments; and agreeing and implementing recommendations. The Protocol, shown as Appendix 3, has been agreed by Management Team and formal endorsement is sought from the Committee.

Consultation on the Internal Audit Plan for 2014/15 has begun. The Committee will receive a draft Internal Audit Plan for approval in April but Members are invited to indicate whether there are any changes that they would wish to see in terms of the allocation of resources between different types of risk (currently categorised as Financial; Fraud; Governance & Performance; IT; or Service Delivery) or whether there are specific issues about which assurance would be valued. Any guidance received will be reflected in the draft Plan.

One of the Consortium's Auditors resigned in November 2013 to take up employment in the private sector. The Welland Board agreed to a cost-neutral proposal to use salary savings and recovered training expenses to employ an experienced audit contractor until the end of the financial year. One reason for the proposal was to allow time to evaluate whether the Consortium's current staffing structure remains appropriate to the new working arrangements.

Appendix 1: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium is required to produce an Annual Report of Internal Audit based on a programme of work agreed by the Council's senior managers and approved by the Governance Committee subject to the limitations outlined below.

Opinion

The Opinion is based, primarily, on work undertaken as part of the agreed Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work; were excluded from the scope of individual internal assignments; or were not brought to our attention. As a consequence, the Governance Committee should be aware that the Opinion delivered at the end of each year might differ if our programme of work, or the scope of individual assignments was extended or other relevant matters were brought to our attention

Internal Control

Internal control systems, 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

Our assessment of the Council's control framework is backward looking for the year ending 31st March. This historic 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 our work should not be relied upon to disclose all fraud or other irregularities that might exist.

Appendix 2: Progressing the Annual Audit Plan

Key

Current status of assignments is shown by ●

Status at the date of the last Committee is shown by □

Assignment	Budget	Actual	Start Date	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
Financial Risks	47	18									
Cash Handling	4	10						□	●	Sufficient	Auditor Training. Note 1
Ordering	8	6				□		●		N/A	Special exercise Note 2
Benefits	10	1	Jan	●							
Local Taxes	10	1	Jan	●							
Financial Management	5		Feb	●							
Financial Systems Key Controls	10		Feb	●							
Fraud Risks	59	53									
Provision of Housing Grants	12	16							●	Sufficient	Note 3
Tenancy Fraud	6	8						□	●	Substantial	Auditor Training. Note 1
NFI Management	26	29					□	●		N/A	Consultancy Note 4
Procurement Fraud	15		Feb	●							
Governance & Performance Risks	38	3									
Managing Absence	1	3							□ ●	Sufficient	Note 5
Managing Contracts	12		Jan	●							
Data Management	15				□ ●						Resignation Note 6
Transformation	10		March	●							

Assignment	Budget	Actual	Start Date	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
IT Risks	20	2									
Disaster Recovery	20	1			☐●						Planning work has been undertaken by IT audit contractor. Field work starts March
Project Management		1			☐●						
NTA Review						☐●					
Service Delivery Risks	27	20									
Economic Development	5	10						☐	●	Substantial	Auditor Training. Note 1
Waste & Recycling	12	10				☐		●		Sufficient	
Supporting Families	5		Jan	●							
Housing Allocations	5		Feb	●							
TOTAL BUDGETED WORK	191	96									
UNALLOCATED BUDGET	44										
TOTAL BUDGET	235	96									
Unplanned Work		110									
Core Strategy Review		4								Sufficient	Note 7
Completion of 2012/13 work		61									
Advice & Assistance		1									
Recommendation Follow Up		3									
Committee Work		9									
Meetings with Clients		7									
Improvement Plan		25									
TOTAL	235	206									

Note 1. A central element of the Improvement Plan was the introduction of a fundamentally different way of carrying out audit assignments. It was necessary to provide Auditors with training, coaching and support to ensure that they understood what the new working methods involved and were capable of delivering work of an appropriate standard. As a result time booked to assignments exceeded original budgets. The figures reported are an estimate of the Auditor's performance after stripping out time spent on coaching and development.

Note 2. The Chief Executive has commissioned a series of short audit assignments to allow her to promote and track compliance with policy on use of e-orders: the final assignment will be carried out at the beginning of 2014/15 using whole-year data. This is an ongoing consultancy exercise which does not yet support an Assurance Rating.

Note 3. Posting error identified – previously reported as being delivered in 12 days.

Note 4. NFI work involved direct support to officers in the review of NFI information and the development of a report identifying opportunities to manage the NFI process more effectively in future. The support element has overrun.

Note 5. Overrun because the assignment identified unresolved problems with absence management that needed to be addressed.

Note 6. The Auditor to whom this assignment was allocated resigned in November 2013 and work was put on hold until a replacement Auditor became available.

Note 7. The Chief Executive commissioned an independent review to establish whether there had been appropriate senior management engagement in the Core Strategy Review. Reliance will be placed upon this work when developing the Annual Audit Opinion because it provides independent and objective assurance about an important issue of Governance.

INTERNAL AUDIT PROTOCOL

This Protocol outlines the respective roles and responsibilities of the Council’s internal auditors and managers in ensuring that the Council receives an effective and efficient internal audit service. A more detailed explanation of the role and responsibilities of the Welland Internal Audit Consortium, as the Council’s internal auditors, are provided by the Internal Audit Charter which is available on MIKE.

Objectives of the Protocol

- To ensure a mutual understanding of both parties’ legitimate expectations.
- To focus the work of internal audit on things that matter to management.
- To avoid unnecessary disruption to services or wasting managers’ time.

DEVELOPING THE ANNUAL INTERNAL AUDIT PLAN	
- ensuring that the Plan focuses on areas that concern management	
<i>Management Responsibilities</i>	<i>Auditors’ Responsibilities</i>
	The Consortium will support the Council’s Governance Committee in coming to a determination about the Council’s requirement for assurance
	The Consortium will arrange audit planning meetings with Management Team and Heads of Service in December time.
Clients will be asked to identify the risks to the delivery of the Council’s strategic goals and priorities and develop a framework of controls to manage those risks.	The Consortium will facilitate the development of risk-based Annual Internal Audit Plan that addresses clients’ assurance requirement and has the potential to deliver assurance about the way in which the Council’s most significant risks are managed.
Clients will identify the risks and the associated controls about which they require assurance from audit. Clients to share these requirements with audit at audit planning meetings.	
	The Consortium will present the audit plan to Management Team for approval in January.
Clients will ensure that all managers are aware of the inclusion in the Annual Internal Audit Plan of assignments impacting on their areas of responsibility.	The Consortium will seek Governance Committee’s approval for the Plan
Clients may request in year support direct to Internal Audit or via Head of Central Services	The Consortium will seek agreement of any changes to the audit plan requested by clients as a result of changes in circumstance and newly identified risks or other issues.

PLANNING AUDIT ASSIGNMENTS

- ensuring that the Audit Planning Record clearly understood by all parties and focus audit attention on the risks that matter to client managers

Management Responsibilities***Auditors' Responsibilities***

Clients will ensure each planning meeting is attended by all relevant managers so that the key risks are identified and that proper weight is given to issues such as impact on delivery of service priorities and service deadlines.

The Consortium will give the clients enough notice of planning meeting to allow for proper prior consideration of the clients' risks and other relevant issues such as workloads and priorities in the area to be audited.
The Consortium will send an agenda through for that meeting.

Clients will ensure that they are prepared for planning meeting by ensuring that they can articulate:

- key risks
- areas of concern
- any pending changes
- areas where audit should focus
- areas outside of scope

Clients will ensure that all relevant managers receive sight of draft Audit Planning Records and have the opportunity to comment on them.

The Consortium will produce and circulate draft Audit Planning Records sufficiently in advance of scheduled start dates as to allow the clients to circulate them and confirm that they both meet requirements for assurance and avoid unnecessary disruption to service delivery.

Clients will provide formal confirmation that the Audit Planning Record is acceptable or advise of changes that they require.

The Consortium will only commence an assignment when satisfied that there is scope to provide added value and meaningful assurance.

CARRYING OUT ASSIGNMENTS

- ensuring that the internal audit process does not cause avoidable disruption to service delivery;
- ensuring efficient use of internal audit resources

Management Responsibilities***Auditors' Responsibilities***

The Consortium to ensure that the auditor undertaking the review is properly briefed and has a proper understanding of the area to be reviewed.

Clients will ensure that all relevant managers and other staff are aware of the nature, scope and timing of imminent audit assignments. Clients will ensure that the auditors are advised – as soon as possible - of any changes of circumstances impacting on the planned scheduling or delivery of an assignment

The Consortium will not begin audit field work until the client has formally agreed the Audit Planning Record for the assignment.

The Consortium will, wherever practical and appropriate, provide the client with advanced notification of the information required to carry out an assignment.

<p>Clients will ensure that managers and other relevant staff have a proper understanding of their duties to cooperate with internal audit in; agreeing and keeping appointments; meeting information requests; and responding to reasonable requests for explanations and supplementary information.</p>	<p>The Consortium will discuss scheduling of assignments with the client and seek to organise on-site field work so as to take account of clients' workloads and deadlines and minimise service disruption.</p>
	<p>The Consortium will maintain an open dialogue with clients (both managers and other staff) during the course of each audit assignment to ensure that requests for information – or other support – are not causing unreasonable and/or avoidable difficulties.</p>
<p>Clients will acknowledge that, where significant extraneous issues are identified during audit fieldwork, it may be necessary to redefine the Audit Planning Record and reconsider the resource budget for the ongoing assignment.</p>	<p>The Consortium will work within the agreed terms of reference unless significant extraneous issues are identified: the client will be advised of such issues and given the opportunity to revise the agreed Audit Planning Record and (if appropriate) the agreed resource budget.</p>
<p>REPORTING</p> <ul style="list-style-type: none"> - ensuring that there are no surprises for managers; - ensuring that the findings set out in reports are soundly based on a proper understanding of all the relevant facts; - ensuring that agreed recommendations are practical and proportionate to the risks identified. 	
<p><i>Management Responsibilities</i></p>	<p><i>Auditors' Responsibilities</i></p>
<p>Clients will ensure that relevant managers spend enough time reviewing draft reports to be certain that they are accurate, and based upon a proper consideration of all relevant information.</p>	<p>The Consortium will ensure that any significant issues identified in the course of audit fieldwork will be reported to the relevant senior manager as soon as key facts are verified. In cases where findings are likely to lead to a negative opinion, the relevant senior manager will be informally briefed.</p>
<p>Clients will highlight at the earliest stage possible any concerns about accuracy or completeness of findings or the validity of conclusions contained in draft audit reports, including the audit opinion. The Head of Central Services can be used to provide an independent view or help resolve queries.</p>	<p>The Consortium will provide managers with reasonable opportunities to satisfy themselves as to the accuracy and completeness of audit reports before they are issued.</p>
<p>Clients will ensure that they understand the proposed effect and resource implications of each recommendation before it is accepted. Clients should be satisfied that any recommendation accepted is justified; proportionate; and has a good prospect of delivering the desired outcomes.</p>	<p>The Consortium will make practical and realistic recommendations that address material issues identified.</p>
	<p>The Consortium will give credit for any improvement activity undertaken prior to reporting.</p>

	The Consortium will ensure that no reports are shared outside the relevant officer group without appropriate clearance.
	The Consortium will ensure that agreed report clearance stages are covered before a final report is issued and that input received from clients during the clearance process is acknowledged in the final report.
IMPLEMENTING RECOMMENDATIONS	
- ensuring that necessary improvements to the management of risk are made without delay	
<i>Management Responsibilities</i>	<i>Auditors' Responsibilities</i>
Clients will ensure that resources are made available to deliver agreed recommendations and that all relevant managers understand the priority placed on delivery within the agreed deadlines.	The Consortium will provide clients and other interested parties with regular reports on progress on implementation of agreed recommendations highlighting any recommendations not implemented within agreed timescales
Clients will monitor progress in delivering agreed recommendations and will advise the Consortium – and other interested parties – of any delays in implementation that might impact, materially on the control of the client's risks	The Consortium will ensure that senior management and the Governance Committee are aware of any material delays in the implementation of agreed recommendations and the impact that such delays have on the control of the Council's risks.
CLIENT FEEDBACK	
- ensuring that managers receive the quality of service that they expect	
<i>Management Responsibilities</i>	<i>Auditors' Responsibilities</i>
Clients will provide objective feedback on the quality of work delivered by the Consortium and any aspects of the service delivered which does not meet client needs and expectations.	The Consortium will seek client feedback at the completion of each assignment; and again at the completion of the Annual Internal Audit Plan.
	The Consortium will use the feedback received to improve the quality of service delivered to clients.