



MELTON BOROUGH COUNCIL
INTERNAL AUDIT UPDATE
SEPTEMBER 2014

Date: 22nd September 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 2014/15 Annual Audit Plan and undertake other work commissioned by 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 Welland Board set the Consortium an interim target of delivering 40% of planned assignments to, at least, Discussion Draft stage by the date of the September 2014 committee meeting. That was a challenging target - in light of the need to complete outstanding 2013/14 assignments.

Following the retirement of the Head of Consortium, the Welland Board has appointed LGSS (a shared services arrangement between Cambridgeshire and Northamptonshire County Council) to manage the consortium on an interim basis until 31st March 2015. LGSS has been given the objective of delivering at least 90% of the internal audit plans for 2014/15 by the end of March 2014. LGSS are reviewing options for resourcing the audit plans and it is expected that this target will be achieved.

At the date of writing, four executive reports have been issued; three assignments are at discussion draft stage; and work is in progress on a further two assignments. Progress on individual assignments is shown in Appendix 2. This means that a total of 37% of the audit plan has been delivered, to at least discussion draft stage, at this mid-year point.

2.2 Are we delivering to budget?

Of the four completed assignments two have exceeded the allocated time budget and it is certain that one further assignment will also exceed the budget. Explanations for budget overruns are shown in Appendix 2.

2.3 Are we delivering on time?

Specific target completion dates were set for the first four assignments undertaken in 2014/15 but only one was completed on time: reasons for delayed completion are set out in Appendix 2.

2.4 Is productivity satisfactory?

Improvement Required

The most recent information available (week 20) shows that we are spending 87% of time on chargeable activities against a target of 90%. Time spent on non-chargeable activities has been higher than anticipated because of vacant posts and a significant commitment of time to support the new working relationship with LGSS. It is anticipated that productivity will trend upwards over the remainder of the year.

2.5 Are we satisfying customers?

Yes

The Customer Satisfaction Questionnaire issued and returned in respect of completed 2014/15 assignments show that most clients rate all aspects of audit assignments as “Good” – as detailed in Appendix 3. In addition the Head of Central Services as the Council’s Section 151 Officer has indicated that she is happy with the progress in delivering the Plan.

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

No

While the Disclosure & Barring assignment resulted in a Limited Assurance Rating management responded to the issues raised by the Auditor in the Discussion Draft and had completed all necessary remedial action before the Executive Report was issued (See 2.7 below). All of the other assignments completed have resulted in Sufficient Assurance Ratings.

2.7 Are clients progressing audit recommendations with appropriate urgency?

Yes

The Chief Executive commissions regular presentations to Management Team on progress with the implementation of agreed recommendations to demonstrate that senior management takes audit recommendations seriously. As a result most managers implement recommendation within agreed deadlines or, if that proves impossible, provide explanations for non-compliance and agree revised targets.

A noteworthy example of manager’s responsiveness to recommendations is provided by the recently completed Disclosure & Barring assignment. The Limited Assurance Rating for the assignment reflected significant issues in the way that Taxi Licences were being renewed but the Executive Report contains no recommendations addressing those issues. This is because, on receipt of the Discussion Draft, the Regulatory Services Manager took immediate and effective action: in a period of seven days between the issue of the Discussion Draft and the issue of the Executive Report all substantive issues of concern were addressed and identified weaknesses in the control framework were remedied.

At the date of reporting, there are 22 recommendations outstanding and one of these is overdue for implementation. The overdue recommendation relates to the development of a revised Business Continuity Plan; while significant progress has been made towards the production of the new Plan and Management Team is closely engaged in its development the agreed implementation date was over optimistic. An analysis showing ownership of outstanding recommendations and their assessed significance is shown in Appendix 4.

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 Audit & Risk 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 Audit & Risk 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: Progressing the Annual Audit Plan

KEY	
Current status of assignments is shown by	
Status at date of last Committee shown by	

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
Financial Risks										
Benefit Subsidy Claims	15									
Creditors	5									
Debt Management	15	13.6								
Fraud Risks										
Employment-Related Fraud	10	16			 					Budget Exceeded Note 1
Consultancy on Counter Fraud Arrangements	10									
Governance & Performance Risks										
Complaints Management	10	0.3								Preparatory discussions with clients
Disclosure & Barring Service	10	14.3							Limited	Budget Exceeded; Delivered Late Note 2
Freedom of Information	10	9.5							Sufficient	Delivered Late Note 3

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
Management of Capital Projects	10		●							
Managing ESF Projects	15	11	■				●			
Starters & Leavers	15		●							
Strategic Management of Environmental Maintenance	10		●							
IT Risks										
Physical Security	8	4	■				●			
Governance	9	0.5	●							Time recorded relates to design of Audit by ICT specialist
System Administration	8	4	■		●					
Service Delivery Risks										
Vulnerable Families	15		●							
Financial Support for Vulnerable Families	10		●							
Discretionary Housing Payments	6	6			■			●	Sufficient	
Civil Emergencies and Standby	5	5.4			■			●	Sufficient	Budget Exceeded; Delivered Late Notes 2&3

Unplanned Work										
Contingency	19									
Advice & Assistance	0	1.4								
Committee Work	5	3.5								
Recommendation Follow-Up	3	1								
Client Meetings	5	1.6								
Completion of 2013/14 Assignments	48	48								Costs of completion of 2013/14 work to be charged to Consortium's Reserve.

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.

Notes

1. The ways in which the Council's HR and expenses files are structured have required the Auditor to spend more time than anticipated in data manipulation and data extraction.
2. Handover of the assignment from a leaver to another member of the team required the commitment of additional time.
3. Impact of necessary handover of work.

Appendix 3: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire to each client with whom there was a significant engagement during the assignment. The Head of Service and the Line Manager receive a CSQ for all assignments within their areas of responsibility. The standard CSQ asks for the client's opinion of four key aspects of the assignment. The 13 responses received in the year to date are set out below.

Client Response/Assignment	N/A	Outstanding	Good	Satisfactory	Poor
Disclosure & Barring Service			7	5	
Freedom of Information			8	4	
Discretionary Housing Payments		6	8	2	
Civil Emergencies and Standby	1	4	5	2	
Total	1	10	28	13	0

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment		3	7	3	
Communication during Assignments	1	2	8	2	
Quality of Reporting		3	7	3	
Quality of Recommendations		2	6	5	
Total	1	10	28	13	0

Appendix 4: Outstanding Audit Recommendations

SUMMARY							
Responsible Officer	All Recommendations			Overdue Recommendations			
	H	M	L	H	M	L	
Head of Central Services	4	2	0	0	0	0	
Head of Communications	1	3	0	0	0	0	
Head of Communities & Neighbourhoods	1	6	1	0	0	0	
Head of Regulatory Services	1	0	0	1	0	0	
Solicitor to the Council	1	1	0	0	0	0	
TOTAL	8	12	1	1	0	0	

Head of Central Services							
Assignment	All Recommendations			Overdue Recommendations			
	H	M	L	H	M	L	
ICT Polices & Procedures 2013/14	3	0	0	0	0	0	
ICT Assets Database 2013/14	0	1	0	0	0	0	
Procurement Fraud Risks 2013/14	1	1	0	0	0	0	
TOTAL	4	2	0	0	0	0	
Head of Communications							
Assignment	All Recommendations			Overdue Recommendations			
	H	M	L	H	M	L	
Data Management 2013/14	1	0	0	0	0	0	
Freedom of Information 2014/15	0	1	0	0	0	0	
Local Taxes 2013/14	0	1	0	0	0	0	
Procurement Fraud Risk 2013/14	0	1	0	0	0	0	
Tenancy Fraud Risk 2013/14	0	0	1	0	0	0	
TOTAL	1	3	1	0	0	0	
Head of Communities & Neighbourhoods							
Assignment	All Recommendations			Overdue Recommendations			
	H	M	L	H	M	L	
Benefits 2013/14	1	2	0	0	0	0	
Civil Emergencies & Call Out 2014/15	0	1	1	0	0	0	
Discretionary Housing Payments 2014/15	0	2	0	0	0	0	
Economic Development 2013/14	0	0	0	0	0	0	
Local Taxes 2013/14	0	1	0	0	0	0	
TOTAL	1	6	1	0	0	0	

Head of Regulatory Services							
Assignment	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
Main Accounting System 2012/13	1	0	0		1	0	0
TOTAL	1	0	0		1	0	0
Solicitor to the Council							
Assignment	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
Procurement Fraud Risks 2013/14	1	1	0		0	0	0
TOTAL	1	1	0		0	0	0