



**MELTON BOROUGH COUNCIL**

**INTERNAL AUDIT UPDATE**

**APRIL 2016**

**Date: 7<sup>th</sup> April 2016**

## ***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 2015/16 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 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 details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the Consortium.

## ***Performance***

### **2.1 Will the Internal Audit Plan for 2015/16 be delivered?**

The Welland Internal Audit Consortium is currently under the management of LGSS (Local Government Shared Services). The Welland Board has set LGSS the objective of delivering at least 90% of the Internal Audit plans to draft report stage by the end of March 2016.

At the date of reporting, eleven assignments have been finalised; a draft report has been issued on one assignment; and fieldwork is complete on a further assignment. As such, the team is on track to deliver the Audit Plan.

It has not been possible to progress the fieldwork on the audit of the New Build Programme due to the stage of the project. It was agreed with senior management that an additional review would be conducted on the taxi licensing trading account to make use of the commissioned days and provide management with assurance over this account ahead of the financial year end. This work has been delivered and reported to management.

Progress on individual assignments is shown in Appendix 1.

### **2.2 Are audits being delivered to budget?**

Internal Audit is on target to deliver the Audit Plan within the 235 days budget. Any overruns on individual assignments are managed within the overall budget.

### **2.3 Are clients satisfied with the quality of the Internal Audit assignments?**

Responses received to the Customer Satisfaction Questionnaire show that clients have rated all aspects of the audit assignments completed during the year to date as 'good' or 'outstanding'. A summary of the responses is provided in Appendix 2.

### **2.4 Is the Internal Audit team achieving the expected level of productivity?**

As at the latest possible date for reporting purposes (week 46), the team has been delivering 94% productivity, thereby exceeding the target set of 90%.

2.5 **Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

Since the last Committee meeting, reports on a further two assignments from the 2015/16 Internal Audit Plan have been finalised. The key findings have been as follows:

Intensive Housing Management Scheme

Melton Borough Council (MBC) launched its new Intensive Housing Management Service on 1<sup>st</sup> April 2015. The scheme is designed to provide an effective support service to tenants living in Melton Borough Council Housing who require low level support in order to remain independent. In doing so, the service supports delivery of the Council's priority to improve outcomes for vulnerable people and create independence in people's lives.

At the time of audit, there were approximately 610 users of the intensive housing management service. The scheme involves the provision of the Lifeline service and visits to each service user's home, the frequency of which is based upon the individual's needs. Sample testing confirmed that records were generally held to record visits and these demonstrated an awareness of the individual's wellbeing as well as required property repairs and support. It was noted that any housing repair needs which were noted on the sample of records had been input onto the housing system and resulted in the completion of repair work, including emergency same day repairs where required.

In sample testing, there was evidence on file to demonstrate that 87% of the service users had received a frequency of visits which was consistent with their requirements. For the remaining service users, visit records were not held on file and, as such, this could not be confirmed at the time of testing. At the time of testing, there was no regular, recorded independent monitoring of the frequency of visits against those agreed and on recommendation from Internal Audit, this has now been implemented.

The intensive housing management scheme has an agreed budget allocation, the majority of which is funded from the Housing Revenue Account. Given the loss of one-off funding from the County Council and potential inflation increases in future years, the budget for the service will need to remain subject to regular monitoring. In relation to invoices paid by the Council for the Lifeline service, it was recommended that the Council request further supporting details for each invoice, such as number of users covered, to provide assurance over the accuracy of charging and compliance with the fees and charges set out in the agreement.

Based upon the findings of the review, an opinion of **Substantial Assurance** has been given over the controls in place to manage the identified risks. Internal Audit have made two recommendations to further improve the controls, one of which has already been actioned.

Debtors System and Debt Recovery

Internal Audit sought to provide assurance over the key controls within the Council's debtors system (Oracle) and to review whether controls are fit for purpose and operating effectively in practice.

The Account Receivables (AR) module of Oracle was implemented in November 2014. Since the system went live, some key functionalities of the Oracle AR module have not been operating and some are not operating effectively. Oracle is currently not set up to produce reminder letters and the Council does not have sufficient resources to manually produce such letters to those owing the Council money. As a result, most debtors are not informed when payments become overdue. This has contributed to high levels of sundry debt. On 11<sup>th</sup> January 2016 the Council had sundry debt of £1,117,097 of which 35% had been overdue for more than a year. Furthermore, the Council does not identify and report upon disputed invoices in the Oracle system and there is no routine production and review of reports detailing unidentified cash payments.

Despite issues surrounding the Oracle functionalities, the Council is focussing debt recovery efforts on the top 25 debtors as well as systematically reviewing and recovering debts by service area. Performance indicators are in place to review and monitor the Council's debt recovery process and results show that aged debt has reduced since 2014/15.

Sample testing of debtor invoices, credit notes, cash allocation and write offs all demonstrated proficient, effective procedures and compliance with Council policy. It was also noted that sufficient guidance notes/procedures are in place to enable the debtors function to operate effectively.


Based upon the findings of the review, an opinion of **Limited Assurance** has been given over the controls in place to manage the identified risks. Internal Audit have made eight recommendations to further improve the controls and an action plan has been agreed with management. All high priority actions are due for completion by 31<sup>st</sup> April 2016.

Copies of all Internal Audit reports are available to Members at any time and can be requested via the Head of Internal Audit or the Head of Central Services.

## 2.6 **Are clients progressing audit recommendations with appropriate urgency?**

Since the last Committee meeting, seven actions from audit reports have been completed by officers, this represents 54% of the actions due for completion during the period. At the date of reporting, there are six agreed management actions which are overdue for implementation. Reasons have been provided and revised dates for implementation have been agreed, where appropriate. An analysis of the implementation of actions is provided in Appendix 3. One of these actions was rated as 'High Priority' and has been overdue for over three months and, as such, full details have been provided in Appendix 4.

**Appendix 1: Progressing the Annual Internal Audit Plan**

<b>KEY</b>
Current status of assignments is shown by 

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks										
Procurement Cards	5	5						●	Substantial	Reported to Committee in June 2015
Debtors System and Debt Recovery	10	10.9						●	Limited	
Financial Governance and Transparency	10	7.5						●	N/A	Reported to Committee in February 2016
Financial System Key Controls	15	13.7					●			
Revenues and Benefits	9	2.6			●					Consultancy as required
IT Risks										
IT Helpdesk Service	20	19.7						●	Sufficient	Reported to Committee in September 2015
IT Roles and Responsibilities	10	3.6				●				

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Service Delivery Risks										
Housing Repairs	20	10.2			●					
Intensive Housing Management Scheme	15	8.8					●		Substantial	
New Build Programme	10	1.1			●					Unable to progress audit testing due to project status
Industrial Estates	10	11.7					●		Limited	Reported to Committee in February 2016
Statutory Inspection Regimes (Communal areas)	15	15.6					●		Sufficient	Reported to Committee in February 2016
Wheels to Work	10	16					●		Sufficient	Reported to Committee in November 2015
Health and Safety	15	14.5					●		Limited	Reported to Committee in September 2015
Planning Applications	5	5.1					●		N/A	Reported to Committee in February 2016
Taxi Licensing – Trading Account	-	2.1					●		N/A	

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	3.1	
Committee Work, Support & Annual Report	15	10.6	

Assignment	Budget	Actual	Comments
Other Client Support			
Recommendation Follow-Up	3	3.7	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	9.6	
Completion of 2014/15 Assignments	-	17	
Consortium Management Time	21	16.5	

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.

<b>Substantial</b>	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.
<b>Sufficient</b>	The control framework is basically sound but either <ul style="list-style-type: none"> <li>• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or</li> <li>• testing provides evidence of non-compliance sufficient to weaken the effect of some controls.</li> </ul>
<b>Limited</b>	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
<b>No</b>	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 2: 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 responses received in the year to date are set out below.

<b>Aspects of Audit Assignments</b>	<b>N/A</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment		4	4		
Communication during Assignments	1	3	4		
Quality of Reporting		4	4		
Quality of Recommendations	1	2	5		
<b>Total</b>	<b>2</b>	<b>13</b>	<b>17</b>		



**Appendix 3: Implementation of Audit Recommendations**

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and <b>implemented</b> since last Committee meeting	6	86%	7	10%	1	33%	7	<b>54%</b>
Actions due within last 3 months, but <b>not implemented</b>	-	-	2	20%	2	67%	4	<b>31%</b>
Actions due <b>over 3 months</b> ago, but <b>not implemented</b>	1	14%	1	10%	-	-	2	<b>15%</b>
Totals	7	100%	10	100%	3	100%	13	100%

**Appendix 4: 'High' Priority actions overdue for more than three months**

Audit Title and Year	Service Area	Issue / Outstanding Action	Reason for Revised Implementation Timescale	Officer Responsible	Original Date	Revised Date
Main Accounting 2013/14	Regulatory Services	Head of Regulatory Services ensures the Business Continuity Plan (BCP) is approved and communicated to all relevant officers subject to discussion on the effect of arrangements with partners in Parkside.	Updated BCP was presented to Management Team (MT) on 1/2/2016 and MT determined that 3 workshop sessions are required looking at business impact, priority services and service recovery.	Head of Regulatory Services	31 <sup>st</sup> May 2013	31 <sup>st</sup> January 2016  To be confirmed

## ***Appendix 5: 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.