



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

MARCH 2015

Date: 31st March 2015

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 has set LGSS the objective of delivering at least 90% of the internal audit plans for 2014/15 to draft report stage by the end of March 2015. LGSS have put in place arrangements to resource the audit plans and it is expected that this target will be achieved.

At the date of writing, thirteen assignments have been finalised; one assignment is at draft report stage; and work is in progress on all of the remaining four assignments. Progress on individual assignments is shown in Appendix 2. This means that, at the time of reporting, a total of 78% of the audit plan has been delivered to at least draft report stage. A verbal update on subsequent progress will be provided at the Governance Committee meeting.

2.2 Are we delivering 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 we delivering on time?

All assignments have been finalised within the overall timescales agreed with the Board.

2.4 Is productivity satisfactory?

The most recent information available (week 47) shows that the team are spending 84% of time on chargeable activities against a target of 90%. Time spent on non-chargeable activities has been higher than anticipated due to vacant posts, induction for new staff and the implementation of a new software system. This figure also excludes the productivity of contractors, who are only paid for chargeable work.

2.5 **Are we satisfying customers?**

Yes.

Responses received to the Customer Satisfaction Questionnaire show that clients have rated all aspects of the audit assignments completed during the last quarter as either 'good' or 'outstanding'.

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

Since the last Committee meeting, an audit of **Measures to Prevent Employment Related Fraud** has been completed and this received a **Limited Assurance** opinion. A hard copy of this report will be made available to Members.

The report has highlighted some areas where the Council could further develop its control environment to reduce the risk of employment related fraud. This includes ensuring that checks on identity, qualifications and the right to work in the United Kingdom are robust, consistently enforced and suitably recorded. The minimum requirement on forms of identification, for example, is not currently consistent with national guidance. Management have agreed high priority actions to strengthen controls so that it can be clearly evidenced that all necessary and appropriate pre-employment checks have been conducted prior to staff appointment, including provision of suitable evidence of identity. It is also recommended that procedures should be further developed for assessing the suitability of staff for a position where a Disclosure and Barring Service check identifies convictions. The Council should ensure such outcomes are suitably considered and decisions to proceed with employment are subject to senior management agreement.

It was identified that the controls around the management of overtime and travel claims require further development. Testing of a sample of travel claims identified some cases where home to work mileage should have been deducted but this had not been suitably applied. Management have agreed to revise the Council policies to clarify the procedure for home to work deductions and when these are applicable. Some errors in rates applied to overtime claims were also identified during sample testing. Management will be reviewing ways in which the controls can be improved to ensure the correct overtime rates are applied, such as automated rates on the payroll system or additional guidance on the claim form.

In addition, audit testing highlighted areas where controls required improvement in relation to absence management and flexi time recording. Whilst these did not impact upon the assurance rating for this audit, the findings merited management attention and, as such, have been provided as a separate briefing paper.

Management have agreed actions in response to all findings raised, both within the report and supporting note, and Internal Audit are assured that these are being promptly progressed. Implementation of the actions will be monitored and reported upon as part of the standard Internal Audit procedures.

A report on the **Management of Capital Projects** has also been finalised since the last Committee meeting, which resulted in a **Sufficient Assurance** opinion. A number of areas of good practice were identified including a Project Management Toolkit and clear monitoring and review arrangements. Management have agreed actions to further improve controls including consistent use of project plans and appropriate training for all project managers. The completeness of the Contracts Register was highlighted as an area for improvement, however no formal recommendation has been made on the basis that an action to address this has already been agreed in another recent audit and is subject to formal monitoring by Internal Audit.

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 Corporate Services.

2.7 **Are clients progressing audit recommendations with appropriate urgency?**

The Chief Executive commissions regular presentations to Management Team on progress with the implementation of agreed recommendations to ensure actions are progressed with suitable urgency. As a result, most managers have implemented recommendations within agreed deadlines or, if this is not possible, provided explanations for non-compliance and agreed revised target dates for completion.

At the date of reporting, there are two agreed management actions which are overdue for implementation. Reasons have been provided and revised dates for implementation have been agreed, where appropriate.

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 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: 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	Draft Report	Executive Report	Assurance Rating	Comments
Financial Risks										
Benefit Claims	15	1.1								Client requested that audit commence in March 2015
Creditors	5	1.1								Client requested that audit testing commence 9 th March 2015
Debt Management – Helping Clients Manage Debt	15	14.4							Limited	
Financial System Key Controls	15	3.6								Client requested that audit testing commence 9 th March 2015
Fraud Risks										
Employment-Related Fraud	10	24							Limited	Budget exceeded – additional testing undertaken

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Executive Report	Assurance Rating	Comments
Consultancy on Counter Fraud Arrangements	10	8.5			■			●	Completed	Training sessions delivered to all staff
Governance & Performance Risks										
Complaints Management	10	7.4			■		●			
Disclosure & Barring Service	10	14.3						●	Limited	
Freedom of Information	10	9.5						●	Sufficient	
Management of Capital Projects	10	11.6					■	●	Sufficient	
Managing ESF Projects	15	11.6						●	Sufficient	
Starters & Leavers	15	11.8						●	Limited	
IT Risks										
Physical Security	8	7.4						●	Sufficient	
Governance	9	5.4						●	Substantial	
System Administration	8	9.9						●	Sufficient	
Service Delivery Risks										
Vulnerable Families	20	1.6		■	●					
Discretionary Housing Payments	6	6						●	Sufficient	
Civil Emergencies and Standby	5	5.4						●	Sufficient	

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Executive Report	Assurance Rating	Comments
Unplanned Work										
Advice & Assistance	0	1.9								
Committee Work	5	5.5								
Recommendation Follow-Up	3	2.9								
Client Meetings	5	5.1								
Completion of 2013/14 Assignments	48	48								

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.

Substantial	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.
Sufficient	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.
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 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 16 responses received in the year to date are set out below.

Client Response/Assignment	N/A	Outstanding	Good	Satisfactory	Poor
Starters and Leavers		1	3		
IT Governance		4	4		
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	15	35	13	0

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment		4	9	3	
Communication during Assignments	1	3	10	2	
Quality of Reporting		5	8	3	
Quality of Recommendations		3	8	5	
Total	1	15	35	13	0

Appendix 4: Outstanding Audit Recommendations

SUMMARY							
Responsible Officer	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
Head of Central Services	3	1	1		0	0	0
Head of Communications	0	2	1		0	0	0
Head of Communities & Neighbourhoods	0	0	0		0	0	0
Head of Regulatory Services	1	2	3		1	0	0
Solicitor to the Council	0	1	0		0	1	0
Head of Welland Procurement	0	0	0		0	0	0
TOTAL	4	6	5		1	1	0

Head of Central Services							
Assignment	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
ICT System Administration 2014/15	0	1	1		0	0	0
Starters and Leavers 2014/15	3	0	0		0	0	0
TOTAL	3	1	1		0	0	0
Head of Communications							
Assignment	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
Local Taxes 2013/14	0	1	0		0	0	0
Starters and Leavers 2014/15	0	1	1		0	0	0
TOTAL	0	2	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
Waste and Recycling Service 2013/14	0	0	1		0	0	0
Management of Capital Projects 2014/15	0	2	2		0	0	0
TOTAL	1	2	3		1	0	0
Solicitor to the Council							
Assignment	All Recommendations				Overdue Recommendations		
	H	M	L		H	M	L
Managing Contracts 2013/14	0	1	0		0	1	0
TOTAL	0	1	0		0	1	0