



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

JUNE 2015

Date: **29<sup>th</sup> June 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 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 for 2015/16 to draft report stage by the end of March 2016.

From the 2014/15 Internal Audit plan, 100% of all assignments have been delivered. All resource can, therefore, be applied to delivering the 2015/16 assignments, as planned.

At the date of reporting, one assignment has been finalised; one assignment is at draft report stage; and work is underway on a further six assignments. The team has, therefore, delivered 13% of the planned assignments to at least draft report stage as at the time of reporting. 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 last quarter 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 9), the team has been delivering **87%** productivity against a target of 90%. In May 2015, a new Trainee Auditor was recruited to the team which has resulted in some additional management time for recruitment and induction procedures.

**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?**

At the time of reporting, one audit from the 2015/16 Internal Audit Plan has been finalised. This audit was in relation to **Procurement Cards** and, based upon the sample testing conducted, Internal Audit provided a **Substantial Assurance** opinion over the design and effectiveness of the controls operating to manage the identified risks.

The audit reviewed the controls in place to manage the risks of unauthorised access to procurement cards, inappropriate or fraudulent use of procurement cards and inability to effectively monitor expenditure on these cards.

The report has highlighted a number of areas of good practice, including review and authorisation procedures, retention of supporting evidence and processes for the coding of expenditure to correct accounting codes. The procedures for authorising and issuing new cards are well established and evidenced and cardholders are provided with guidance on appropriate usage and must sign to accept the terms and conditions of use. Procedures and guidance are in place for reporting any suspected fraudulent transactions and for ensuring cards are stored securely and only be used by the named cardholder.

No recommendations have been made and Substantial Assurance was given in relation to the control environment for all risk areas within the specified scope relating to Procurement Card usage.

The key findings of all audit reports from the 2014/15 Plan are provided in the Annual Internal Audit Report.

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.

**2.6 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.

Since the last Committee meeting, five actions from audit reports have been completed by officers. At the date of reporting, there are four 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 assessed as 'High Priority' and has been overdue for over three months and, as such, full details have been provided in Appendix 4.

## ***Committee Training***

- 3.1 In November 2014, it was agreed that the Committee training schedule would be reviewed following the AGM in May 2015. One session on Corporate Governance was delivered in February 2015.
- 3.2 Training sessions can be provided on key areas such as:
- an Introduction to Internal Audit;
  - Audit Committee effectiveness;
  - Assurance and Independent Assurance; and
  - Corporate Governance
- 3.3 This training can be provided as pre-committee meeting sessions or at convenient times for Members. A schedule of training can be developed and delivered during the year, based on Members' training requirements and preferred timings.
- 3.4 A training session on Risk Management has been scheduled before the September 2015 Governance Committee meeting.

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

<b>KEY</b>
Current status of assignments is shown by <span style="color: blue;">●</span>

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	
Debtors System and Debt Recovery	10	-	●							Quarter 4 2015/16
Financial Governance and Transparency	10	-	●							Quarter 3 2015/16
Financial System Key Controls	15	-	●							Quarter 4 2015/16
Revenues and Benefits	9	-	●							Consultancy support as required
IT Risks										
IT Helpdesk Service	15	8			●					
IT Roles and Responsibilities	15	-	●							Quarter 3 2015/16
Service Delivery Risks										
Housing Repairs	20	-	●							Quarter 3 2015/16

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Intensive Housing Management Scheme	15	-		●						Timing to be agreed to support clients
New Build Programme	10	0.5		●						
Industrial Estates	10	-	●							Quarter 3 2015/16
Statutory Inspection Regimes (Communal areas)	15	1.5		●						Planned ready for Quarter 2 2015/16 delivery
Wheels to Work	10	-		●						Draft Terms of Reference issued
Health and Safety	15	12					●			
Planning Applications	5	3			●					Consultancy support

Assignment	Budget	Actual	Comments
Other Support			
Advice & Assistance	2	0.2	
Committee Work, Support & Annual Report	15	2	
Recommendation Follow-Up	3	0.5	
Client Meetings	7	0.5	
Completion of 2014/15 Assignments	-	17	

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.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment			2		
Communication during Assignments		1	1		
Quality of Reporting		1	1		
Quality of Recommendations	1		1		
<b>Total</b>	<b>1</b>	<b>2</b>	<b>5</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	-	-	2	67%	3	100%	5	<b>56%</b>
Actions due within last 3 months, but <b>not implemented</b>	2	67%	-	-	-	-	2	<b>22%</b>
Actions due <b>over 3 months</b> ago, but <b>not implemented</b>	1	33%	1	33%	-	-	2	<b>22%</b>
Totals	3	100%	3	100%	3	100%	9	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 is approved and communicated to all relevant officers subject to discussion on the effect of arrangements with partners in Parkside.	Delays encountered in producing the Business Continuity Plan and coordinating the collection of information from all service areas. Revised date agreed and action to be followed up in accordance with this.	Head of Regulatory Services	31 <sup>st</sup> May 2013	30 <sup>th</sup> June 2015

## ***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.