



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

FEBRUARY 2016

Date: 1st February 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, eight assignments have been finalised; fieldwork is complete on one further assignment; and work is already underway on all six remaining assignments. As such, the team is on track to deliver the Audit Plan. The fieldwork on the audit of the New Build Programme is on hold pending progress with the delivery of the programme. If the programme does not progress as planned it may not be possible to deliver this assignment by the end of March 2016. 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 41), the team has been delivering 92% 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 four assignments from the 2015/16 Internal Audit Plan have been finalised. The key findings have been as follows:

Industrial Estates

Melton Borough Council has a portfolio of 20 commercial industrial units located at Snowhill. From 1st January 2015, the management of these units was brought back in house, having previously been managed by an external agent, and an Internal Audit review was included in the Audit Plan for 2015/16 to provide assurance over the controls in place to manage this.

Since 1st January 2015 there have been no tenancy applications, therefore Internal Audit sought assurance that sufficient processes have been designed for administering new tenancy applications in house. Whilst Officers have access to example templates and processes, the Council was unable to provide evidence that established procedures are in place. These procedures would include pre tenancy checks such as credit checks, trade reference checks and identification verification.

The rental values of Snowhill units are heavily influenced by the current property market and the Council has a sound approach in setting commercial rents and negotiating lease agreements, however documentary evidence to demonstrate this is lacking in places. Of the commercial units reviewed by Internal Audit, 50% did not have lease agreements signed by the Council and/or the tenant and audit trails for the review and approval of leases were not available for review.

Conditions surveys on each of the Snow hill units were undertaken in September 2012 and identified areas of repair ranging from 'essential' to 'desirable'. Officers asserted that a five year plan for allocated spend on repairs and maintenance is in operation however documentary evidence to confirm that repair work had taken place and inspections were carried out and planned was not available at the time of the audit.

The audit highlighted areas of good practice over the invoicing of tenants and recovery of debt. Tenants were invoiced accurately and timely in accordance with agreed lease agreements.

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 the end of February 2016 and, at the time of reporting, Internal Audit have been informed that processes and documentation have already been reviewed to address the key findings.

Statutory Inspection Regimes (Communal Areas)

The Council has a number of statutory responsibilities regarding the safe use of its communal property and open areas. The principal requirements are set out in the

Management of Health and Safety at Work Regulations, Fire Regulations, Gas Safety Regulations, Electricity Work Act, Control of Asbestos at Work Regulations and the Disability Discrimination Act. The audit was designed to provide assurance that the Council has put into place appropriate controls, which balance the risks and resources required, to ensure the safe use of communal areas.

The audit review confirmed that the Council has appropriately designed inspection regimes in place which cover general fund property, housing and parks and open spaces. Inspections were being completed in line with established regimes; although it was noted in the case of housing that the current regime had only been in place for two months. The frequency of inspections is based upon assessments of the frequency of usage and general condition of the property or area. Sample testing confirmed that statutory fire, gas, electricity, asbestos and water hygiene risk assessments had been consistently completed, where required. Furthermore, evidence was available to demonstrate that periodic monitoring and safety checks were being carried out in the manner expected.

The audit review also highlighted that, whilst general fund property inspections were being completed until September 2015, following the resignation of the Building Facilities Manager these inspections have now ceased. As such, there is a risk of non-compliance with the inspection regime for the remainder of 2015/16. Sample testing had also highlighted that disability access assessments had not been completed for any of the selected locations.

Based upon the findings of the review, an opinion of **Sufficient Assurance** has been given over the controls in place to manage the identified risks. Internal Audit have made five recommendations to further improve the controls and an action plan has been agreed with management. Since the report was issued, management have confirmed that four of these recommendations have been actioned, including ensuring the inspection regime is on schedule and the commissioning of disability access assessments.

Financial Governance and Transparency

The Local Government Transparency Code was introduced in 2014 in order to meet the Government's objective to increase democratic accountability and make it easier for local people to contribute to local decision making processes and help shape public services. The Transparency Code sets out the information which local authorities must publish, and details of further information which local authorities are recommended to publish. The purpose of this review was to provide assurance that the mandatory requirements of the Transparency Code are being complied with and that best practice is also followed when publishing information on budget setting, budget monitoring and financial performance. By publishing this information and ensuring it is easily accessible, the Councils should also reduce the number of Freedom of Information requests they receive and the pressure this can place on resources.

This was a joint benchmarking review which was delivered concurrently to Rutland County Council, Melton Borough Council and East Northamptonshire District Council (participating Councils). The data published by the five Welland authorities, plus an additional five authorities, was reviewed to provide meaningful comparative information.

Due to the nature of the review, no assurance opinion has been given but each Council was benchmarked against the comparator authorities. From this review it was highlighted that Melton Borough Council publishes extensive information related to its budget setting and monitoring, in addition to setting out its working financial balances, anticipated future financing and charging policy. The Council transparently sets out its financial plans and the pressures and risks related to those plans. Budget monitoring reports are published quarterly and provide extensive coverage and commentary on financial developments across the Council. For these reasons, Internal Audit has assessed the Council as providing a **High** level of transparency relating to its budget setting and monitoring.

The Council demonstrates **Full** compliance with all mandatory elements of the Transparency Code. In addition, Melton Borough Council publishes 67% of the additional voluntary data as recommended by the Transparency Code. In the benchmarking exercise, Melton ranked as publishing a higher percentage of voluntary data than all other Councils in the group of ten, except Corby Borough Council which also published 67% of this additional information.

All information was published on time and was located with relative ease on the Council's website. The only exception noted was the fraud data which was not easy to find on navigating the website or using the search facility.

Planning Applications

The Council has recently implemented a new electronic document management system (EDMS) to integrate technology, improve customer service, streamline procedures and reduce administrative costs across the organisation, including Planning Services. In addition, an online application has been launched, which is designed to enable documents and information contained within online planning applications to be automatically transferred to the new document management system.

Consultancy assistance was requested from Internal Audit, to support the mapping of the document management procedures currently followed by individual members of the planning team, to identify opportunities to improve efficiency and to advise on the design of new procedures.

The mapping and review of the current document management processes for planning applications has highlighted some areas where further efficiencies may be achieved and advisory recommendations have been made. The processes currently rely upon some paper based and labour intensive practices and a move to better use of technologies provided by the new electronic document management system should deliver additional efficiencies and reduce the service costs. All advisory recommendations have been consolidated into an action plan, to assist management in considering and planning actions to be taken to maximise the efficiencies of the document management processes.

The planning application process is currently managed by three separate sub-teams, an administrative support team, a team of technicians and a processors team. Based upon an understanding of other local authorities and their comparable structures and processes for planning applications, Internal Audit has recommended that a wider planning application

business process re-engineering review be completed, including a review of the team structure and responsibilities. Internal Audit would be able to provide consultancy support to assist with such a review. This, in addition to implementation of the specific advisory recommendations, could reduce the costs of delivery whilst maintaining the level of service to customers.

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?

Since the last Committee meeting, 15 actions from audit reports have been completed by officers, this represents 83% of the actions due for completion during the period. At the date of reporting, there are three 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.

2.7 What progress is being made in developing the Internal Audit Plan for 2016/17?


In order to ensure that the Audit Plan for 2016/17 addresses the Council's key risks and adds value, the Head of Internal Audit is identifying and prioritising the areas for coverage by:

- Reviewing the Council's Risk Registers and Corporate Plan;
- Identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review;
- Analysing coverage of Internal Audit reviews over the last four years and the assurance opinions provided following each review, to identify any gaps or areas where follow up work would be of value;
- Identifying any areas of the Audit Universe which have not been subject to Internal Audit review during the last four years;
- Training workshop with Governance Committee on 1st February 2016 to discuss planning process and areas where Members require assurances from Internal Audit; and
- Meeting with each member of Management Team to discuss key risks and emerging risk areas for the year ahead and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role.

Through this process, a number of potential audit assignments are being identified and will be prioritised and refined based on risk and the potential added value of an audit review and assurance.

The draft Audit Plan will be presented to the Governance Committee on 4th April 2016 for final refinement and formal approval.

Appendix 1: Progressing the Annual Internal Audit Plan

KEY
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	3.8			●					
Financial Governance and Transparency	10	7.5					●		N/A	
Financial System Key Controls	15	1.5			●					
Revenues and Benefits	9	1.8			●					Consultancy as needed
IT Risks										
IT Helpdesk Service	20	19.7						●	Sufficient	Reported to Committee in September 2015
IT Roles and Responsibilities	10	2.1			●					
Service Delivery Risks										
Housing Repairs	20	3.3			●					

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Intensive Housing Management Scheme	15	6.6				●				
New Build Programme	10	1.1			●					Awaiting progress with project
Industrial Estates	10	11.4					●		Limited	
Statutory Inspection Regimes (Communal areas)	15	15.3					●		Sufficient	
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	

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	2	
Committee Work, Support & Annual Report	15	7.5	
Recommendation Follow-Up	3	2.9	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	4.8	
Completion of 2014/15 Assignments	-	17	
Consortium Management Time	21	14.9	

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 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		3	4		
Communication during Assignments	1	2	4		
Quality of Reporting		3	4		
Quality of Recommendations	1	1	5		
Total	2	9	17		

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 implemented since last Committee meeting	4	80%	5	71%	6	100%	15	83%
Actions due within last 3 months, but not implemented	-	-	-	-	-	-	-	-
Actions due over 3 months ago, but not implemented	1	20%	2	29%	-	-	3	17%
Totals	5	100%	7	100%	6	100%	18	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.	Discussed at management team and work is underway on developing the Business Continuity Plan. The previous version remains relevant in its approach and wider content, but some details are out of date.	Head of Regulatory Services	31 st May 2013	31 st January 2016

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.