# MELTON BOROUGH COUNCIL

# INTERNAL AUDIT UPDATE

# NOVEMBER 2014

**Date:** 18th November 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 has set LGSS the objective of delivering at least 90% of the internal audit plans for 2014/15 by the end of March 2015. LGSS are reviewing options for resourcing the audit plans and it is expected that this target will be achieved.

At the date of writing, seven executive reports have been issued; two assignments are at draft report stage; and work is in progress on a further four assignments. Progress on individual assignments is shown in Appendix 2. This means that a total of 47% of the audit plan has been delivered to at least draft report stage.

2.2 **Are we delivering to budget?**

Of the seven completed assignments, two have exceeded the allocated time budget and one further assignment, which is currently at draft report stage, has also exceeded the allocated budget. This will be closely managed to minimise any further overrun. Explanations for budget overruns are shown in Appendix 2.

The three audit assignments which have been finalised since the last Committee meeting were all delivered within the allocated time budget.

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 29) shows that the team are spending 82% 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 management time required to develop the new working relationship with LGSS. This figure also excludes the productivity of contractors, who are only paid for chargeable work. 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 shows that most clients rate all aspects of audit assignments as "Good" – as detailed in Appendix 3.

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

The audit of systems in place for 'Helping Clients Manage Debt' received limited assurance. The review identified that current IT systems did not allow for the routine identification of clients with multiple debts and the work to ensure an appropriate allocation of resources to different aspects of debt recovery and debt management remained incomplete. However, initiatives are already underway which should significantly improve the systems and support a comprehensively proactive debt management strategy – most notably the rollout of the Agilisys Digital Platform.

All other audit reports issued since the last Committee meeting have delivered at least sufficient assurance.

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 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 ten recommendations outstanding, five of which are overdue for implementation. Reasons have been provided for all overdue recommendations and a revised date for implementation has been agreed for each. All five outstanding recommendations are due to be implemented by December 2014.

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 Subsidy Claims | 15 | 0 | ● | | | | | | | To be completed in Q4 |
| Creditors | 5 | 0 | ● | | | | | | | To be completed in Q4 |
| Debt Management – Helping Clients Manage Debt | 15 | 14.4 | | | | | ▪ | ● | Limited | |
| Fraud Risks | | | | | | | | | | |
| Employment-Related Fraud | 10 | 23 | | | ▪ | | ● | | | Budget Exceeded Note 1 |
| Consultancy on Counter Fraud Arrangements | 10 | 0.5 | ▪ | ● | | | | | | Training sessions planned for Spring 2015 |
| Governance & Performance Risks | | | | | | | | | | |
| Complaints Management | 10 | 0.3 | ● | | | | | | | |
| Disclosure & Barring Service | 10 | 14.3 | | | | | | ● | Limited | Budget Exceeded; Delivered Late Note 2 |

| Assignment | Budget | Actual | Not Started | Planning | Field Work Started | Field Work Complete | Draft Report | Executive Report | Assurance Rating | Comments |
|---|---|---|---|---|---|---|---|---|---|---|
| Freedom of Information | 10 | 9.5 | | | | | | ● | Sufficient | Delivered Late Note 3 |
| Management of Capital Projects | 10 | 3.3 | ■ | | ● | | | | | |
| Managing ESF Projects | 15 | 11.6 | | | | | ■ | ● | Sufficient | |
| Starters & Leavers | 15 | 11 | ■ | | | | ● | | | |
| Strategic Management of Environmental Maintenance Assets | 10 | 0 | ● | | | | | | | |
| IT Risks | | | | | | | | | | |
| Physical Security | 8 | 7.4 | | | | | ■ | ● | Sufficient | |
| Governance | 9 | 1.8 | ■ | | ● | | | | | |
| System Administration | 8 | 7 | | | ■ | ● | | | | |
| Service Delivery Risks | | | | | | | | | | |
| Vulnerable Families | 15 | 0 | ● | | | | | | | |
| Financial Support for Vulnerable Families | 10 | 0 | ● | | | | | | | |
| Discretionary Housing Payments | 6 | 6 | | | | | | ● | Sufficient | |
| Civil Emergencies and Standby | 5 | 5.4 | | | | | | ● | Sufficient | Budget Exceeded; Delivered Late Notes 2&3 |

| Assignment | Budget | Actual | Not Started | Planning | Field Work Started | Field Work Complete | Draft Report | Executive Report | Assurance Rating | Comments |
|---|---|---|---|---|---|---|---|---|---|---|
| Unplanned Work | | | | | | | | | | |
| Contingency | 19 | | | | | | | | | |
| Advice & Assistance | 0 | 1.4 | | | | | | | | |
| Committee Work | 5 | 4 | | | | | | | | |
| Recommendation Follow-Up | 3 | 1.4 | | | | | | | | |
| Client Meetings | 5 | 3 | | | | | | | | |
| 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<br>• there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or<br>• 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. |

**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 | 1 | 0 | 1 | | 1 | 0 | 0 |
| Head of Communications | 1 | 2 | 0 | | 0 | 1 | 0 |
| Head of Communities & Neighbourhoods | 0 | 0 | 1 | | 0 | 0 | 1 |
| Head of Regulatory Services | 1 | 0 | 1 | | 1 | 0 | 0 |
| Solicitor to the Council | 0 | 1 | 0 | | 0 | 0 | 0 |
| Head of Welland Procurement | 0 | 0 | 1 | | 0 | 0 | 1 |
| **TOTAL** | **3** | **3** | **4** | | **2** | **1** | **2** |

## Head of Central Services

| Assignment | All Recommendations | | | | Overdue Recommendations | | |
|---|---|---|---|---|---|---|---|
| | H | M | L | | H | M | L |
| ICT Polices & Procedures 2013/14 | 1 | 0 | 0 | | 1 | 0 | 0 |
| ICT Physical Security 2014/15 | 0 | 0 | 1 | | 0 | 0 | 0 |
| **TOTAL** | **1** | **0** | **1** | | **1** | **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 | 1 | 0 |
| **TOTAL** | **1** | **2** | **0** | | **0** | **1** | **0** |

## Head of Communities & Neighbourhoods

| Assignment | All Recommendations | | | | Overdue Recommendations | | |
|---|---|---|---|---|---|---|---|
| | H | M | L | | H | M | L |
| Civil Emergencies & Call Out 2014/15 | 0 | 0 | 1 | | 0 | 0 | 1 |
| **TOTAL** | **0** | **0** | **1** | | **0** | **0** | **1** |

## 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 |
| **TOTAL** | **1** | **0** | **1** | | **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 | 0 | 0 |
| **TOTAL** | **0** | **1** | **0** | | **0** | **0** | **0** |

## Head of Welland Procurement

| Assignment | All Recommendations | | | | Overdue Recommendations | | |
|---|---|---|---|---|---|---|---|
| | H | M | L | | H | M | L |
| Managing Contracts 2013/14 | 0 | 0 | 1 | | 0 | 0 | 1 |
| **TOTAL** | **0** | **0** | **1** | | **0** | **0** | **1** |