



MELTON BOROUGH COUNCIL
INTERNAL AUDIT UPDATE
APRIL 2014

Date: 2nd April 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 2013/14 Annual Audit Plan and undertake other work on behalf of 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. Sickness absence has required some changes to the delivery plan and the commissioning of additional support from audit contractors and it is now likely that two Discussion Drafts, allocated to contractors, will not be issued by 31st March. However, those assignment and all others will have progressed to Executive Report stage before the end of April and the use of contractors means that delays in completion will not compromise the 2014/15 budget.

The most recent performance reports, for the year to 28th February 2014 (week 48) show that the Council has already received 104 % of its commissioned days: this includes time spent on the completion of the 2012/13 Plan; on the Improvement Plan; and on other work to support clients and this Committee. The Consortium has made provision to deliver sufficient additional days to deliver all commissioned assignments by making use of various budget savings to buy in audit contractors; by cutting out various non-chargeable work and through more direct and effective management of Auditor's time. About 50 more days will be delivered than were commissioned but there will be no additional cost to the Council because procurement was cost neutral.

2.2 Are we delivering to budget?

There have been some overruns on individual assignments. Assignments using the new way of working developed this year have taken longer than originally planned. This is because Audit Managers have been spending more time in coaching and providing direct support to the Auditors to ensure that they understand the new way of working and can provide a quality service to clients.

Appendix 2 provides a detailed analysis of actual time spent on assignments to date and shows how time has been spent on the completion of the previous year's work and other unplanned work.

2.3 Are we delivering on time?

There have been delays in completing individual assignments. This is because the Head of Consortium was committed to work on the Improvement Plan and was not available to review Auditors' work on a timely basis. Time spent on training and coaching also meant that it took Auditors longer than originally planned to complete the fieldwork element of assignments.

2.4 Is productivity satisfactory?

The most recent information available (week 48) demonstrates that the Consortium is meeting its original target of spending 90% of time on chargeable activities but is failing to meet the more challenging target of 95% subsequently set by the Committee. Implementing the Improvement Plan has had an adverse, if short-term, impact on productivity.

2.5 Are we satisfying customers?

Customer Satisfaction Questionnaires are only issued after the completion of audit assignments. It is therefore too soon to have more than limited objective evidence about clients' satisfaction with the new working arrangements. However, the CSQs received so far have rated our performance as Good or Very Good. Other feedback obtained indicates that auditees find the new way of working clearer and less time consuming than in previous years: auditees have said that they found the reports to be clearer and better focussed on ways of reducing risk.

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

Executive Reports issued in respect of Cash Handling; Economic Development; Managing Absence; Managing NFI; Ordering; Provision of Housing Grants; Tenancy Fraud Risks; and Waste Management & Recycling have raised no significant issues of concern. Discussion Drafts in respect of Benefits and Local Taxes have raised no significant issues to date.

2.7 How are Audit Recommendations being progressed?

There are currently four outstanding recommendations arising from old style audits and five recommendations arising from new style assignments. New working practices are designed to produce fewer but more material recommendations and new arrangements are in place to promote timely implementation.

2.8 Other Matters

The Consortium has now substantially completed the actions set out the Improvement Plan adopted in response to the RSM Tenon review: it remains only for the Consortium to commission software changes so that report templates reflect new ways of working and reporting. Changes will be implemented as part of the next scheduled system upgrade, early in 2014/15, to avoid unnecessary costs.

The Board is now working to satisfy itself that the actions taken by the Consortium have delivered the desired outcomes.

Appendix 1: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium is required to produce an Annual Report of Internal Audit based on a programme of work agreed by the Council's senior managers and approved by the Governance Committee subject to the limitations outlined below.

Opinion

The Opinion is based, primarily, on work undertaken as part of the agreed Audit Plan. Each audit assignment undertaken addressed the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work; were excluded from the scope of individual internal assignments; or were not brought to our attention. As a consequence, the Governance Committee should be aware that the Opinion delivered at the end of each year might differ if our programme of work, or the scope of individual assignments was extended or other relevant matters were brought to our attention

Internal Control

Internal control systems, 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

Our assessment of the Council's control framework is backward looking for the year ending 31st March. This historic 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 our 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 the date of the last Committee is shown by □

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
Financial Risks	47	40								
Cash Handling	4	10						□ ●	Sufficient	Auditor Training. Note 1
Ordering	8	11					□	●	N/A	Special exercise Note 2
Benefits	10	11	□				●			
Local Taxes	10	6	□				●			
Financial Management	5	1	□		●					
Financial Systems Key Controls	10	1	□		●					
Fraud Risks	59	56								
Provision of Housing Grants	12	16						□ ●	Sufficient	
Tenancy Fraud	6	8						□ ●	Substantial	Auditor Training. Note 1
NFI Management	26	29					□	●	N/A	Consultancy Note 3
Procurement Fraud	15	3	□		●					
Governance & Performance Risks	38	10								
Managing Absence	1	3						□ ●	Sufficient	Note 4
Managing Contracts	12	4	□		●					
Data Management	15	2		□	●					Resignation Note 5
Transformation	10	1	□		●					

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Discussion Draft	Executive Report	Assurance Rating	Comments
IT Risks	20	2								
ICT Policies & Procedures	20	1			●					Changed assignments Note 6.
Asset Database		1			●					
3 rd Party Access Policy						●				
Service Delivery Risks	27	23								
Economic Development	5	10						□●	Substantial	Auditor Training. Note 1
Waste & Recycling	12	11					□	●	Sufficient	
Supporting Families	5	1	□		●					
Housing Allocations	5	1	□		●					
TOTAL BUDGETED WORK	191	131								
UNALLOCATED BUDGET	44									
TOTAL BUDGET	235	131								
Unplanned Work		114								
Core Strategy Review		4						●	Sufficient	Note 7
Completion of 2012/13 work		61								
Advice & Assistance		1								
Recommendation Follow Up		3								
Committee Work		12								
Meetings with Clients		8								
Improvement Plan		25								
TOTAL	235	245								

Note 1. A central element of the Improvement Plan was the introduction of a fundamentally different way of carrying out audit assignments. It was necessary to provide Auditors with training, coaching and support to ensure that they understood what the new working methods involved and were capable of delivering work of an appropriate standard. As a result time booked to assignments exceeded original budgets. The figures reported are an estimate of the Auditor's performance after stripping out time spent on coaching and development.

Note 2. The Chief Executive has commissioned a series of short audit assignments to allow her to promote and track compliance with policy on use of e-orders: the final assignment will be carried out at the beginning of 2014/15 using whole-year data. This is an ongoing consultancy exercise which does not yet support an Assurance Rating.

Note 3. NFI work involved direct support to officers in the review of NFI information and the development of a report identifying opportunities to manage the NFI process more effectively in future. The support element has overrun.

Note 4. Overrun because the assignment identified unresolved problems with absence management that needed to be addressed.

Note 5. The Auditor to whom this assignment was allocated resigned in November 2013 and work was put on hold until a replacement Auditor became available.

Note 6. Following the introduction of new arrangements for the delivery of the Council's ICT services, the new ICT Manager identified that he required assurance about the administrative arrangements in place within the Council to support service delivery.

Note 7. The Chief Executive commissioned an independent review to establish whether there had been appropriate senior management engagement in the Core Strategy Review. Reliance will be placed upon this work when developing the Annual Audit Opinion because it provides independent and objective assurance about an important issue of Governance.