

ITEM 7
Appendix A



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

JUNE 2016

Date: 28th June 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 2016/17 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 2016/17 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 2017.

At the date of reporting, two assignments have been finalised; and fieldwork is underway on a further four assignments.

Progress on individual assignments is shown in Appendix 1.

2.2 Further work commissioned

In addition to the assignments within the Audit Plan for 2016/17 agreed by the Governance Committee in April 2016, Internal Audit has been commissioned by senior management to undertake two additional reviews for Melton Borough Council. Both of these assignments are being delivered by the Head of Internal Audit. The first is a fact finding investigation into a whistle-blowing disclosure which has involved review of evidence, analysis of records and interviews with officers. This confidential investigation is ongoing and will be concluded as soon as possible in accordance with the Council's whistle-blowing policy and fraud response plan.

The second is a specific, consultancy review of expenditure incurred on Phase 1 of the Leisure Vision Project during 2015/16. This has been commissioned by senior management to investigate the total spend against the agreed budgets for both capital and revenue, following concerns raised regarding highlighted overspends. At the time of reporting, this review has recently commenced and will report to the Governance Committee and Policy, Finance and Administration Committee on the total expenditure incurred against the budgets set and any control weaknesses which have been exposed by this review.

These two reviews have been commissioned in addition to the Audit Plan and additional days required for delivery will be charged to the Council accordingly at the financial year end.

2.3 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.

2.4 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.

2.5 Is the Internal Audit team achieving the expected level of productivity?

As at the latest possible date for reporting purposes (week 11), the team has been delivering 88% productivity, against the target set of 90%. The reduction in overall productivity is due to the induction of a new Trainee Auditor in April 2016 – but it should be noted that this new member of the team is already working at 80% including their induction period, which is making a valuable contribution to the delivery of the service.

2.6 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, a final report has been issued for one assignment from the 2016/17 Internal Audit Plan. The key findings arising are as follows:

CCTV Coverage

The 'Melton Mowbray Town Centre CCTV System' has evolved from the formation of a partnership between Melton Borough Council and Leicestershire Police. It comprises of 16 cameras and body worn video (BWV) units, which were introduced in 2014 to enhance the existing static system.

The Council's surveillance system is used to monitor and record the activities of individuals. As such, the Council is processing individuals' personal information and this activity is therefore subject to the Data Protection Act (DPA) 1998. Internal Audit reviewed controls over the security, access, retention and disposal of recorded material to ensure it was compliant with the DPA and found that whilst a number of controls were in place, there were some areas where these could be strengthened further. Access to the CCTV monitoring room, for example, is not fully restricted and whilst visitors to the room are required to sign in and out of a visitors' log, during fieldwork it was identified that this was not consistently completed by all individuals accessing the room. Usernames and passwords are required for accessing the surveillance systems but this control could be strengthened further by ensuring passwords are changed on a regular basis and stored more securely.

The retention and disposal of recorded material for police evidence is sufficiently controlled and evidenced through the use of a Digital Evidence Log. Nevertheless the audit trail for video still images could be developed further by documenting the retention period and destruction date.

A comprehensive set of procedure manuals and a Code of Practice have been designed to govern and control the Council's surveillance systems. Operators are required to sign a Declaration of Compliance and weekly audit checks are performed by the CCTV Co-ordinator to ensure procedures are being followed.

The Council has been transparent in the use of CCTV cameras by publishing their locations on the website and providing the public with details on how to view their personal information should they wish to do so.

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 six recommendations to further improve the controls.

Fees and Charges

Fees and charges are a significant source of income for the Council and are becoming increasingly important as central government funding diminishes and the need for self-sufficiency increases. Based on 2014/15 figures, income of approximately £1.9 million is generated from General Fund charges and £0.6 million from charges in the Housing Revenue Account. The Council has over 350 individual charges ranging from 30p for access to public conveniences to £64,000 for licensing of large scale public events. As well as generating significant income, effective charging policies can also support broader policy objectives such as targeting of subsidies and managing demand for services.

The Council's overall governance arrangements for managing fees and charges are sound. There is a clear and comprehensive corporate charging policy and effective arrangements in place to ensure all charges are reviewed and approved annually. However, application of the policy at service level is not always clearly evidenced or fully documented. In particular, some fees set on a cost recovery basis were established several years ago and increased by inflation in subsequent years. Consequently, it is not always possible to clearly demonstrate whether costs continue to be fully and suitably recovered. In addition, whilst most budget holders interviewed by Internal Audit stated that market intelligence is used to inform pricing decisions, this process is largely informal.

Testing of statutory charges confirmed that all have been established in accordance with the relevant statutory or regulatory requirements.

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 four recommendations to further improve the controls.

Members can request copies of all final Internal Audit reports from the Head of Internal Audit or Head of Central Services at any time.

2.7 Are clients progressing audit recommendations with appropriate urgency?

Since the last Committee meeting, 12 actions from audit reports have been completed by officers, this represents 70% of the actions due for completion during the period. At the date of reporting, there are five 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 more than three months and, as such, full details have been provided in Appendix 4.

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										
Financial System Key Controls	15	-	●							Quarter 4
Fixed Assets	8	-	●							Quarter 3
Treasury Management	7	-	●							Quarter 3
Governance & Counter Fraud										
Counter Fraud and Ethics Arrangements	10	-		●						
Money Laundering	3	0.9			●					
Contract Procedure Regulations Compliance	10	-	●							Quarter 3
Service Delivery Risks and Best Value										
Transformation Programme	10	-			●					Consultancy support
Fees and Charges	15	15					●		Sufficient	
Staff Development and Training Effectiveness	12	-	●							Quarter 2
Post Handling Arrangements	7	1.1				●				

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Disclosure and Barring Service	15	-	●							Quarter 2
Grounds and Environmental Assets Maintenance	15	-	●							Quarter 4
CCTV	12	10					●		Sufficient	
s.106 Agreements	10	-	●							Quarter 3
Housing Options/ Homelessness Strategy	15	0.8			●					
Out of Hours Standby Service	15	-	●							Quarter 4

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	0.64	
Committee Work, Support & Annual Report	15	2.34	
Recommendation Follow-Up	3	0.73	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	0.98	
Completion of 2014/15 Assignments	-	4.22	
Consortium Management Time	21	2.57	

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			1		
Communication during Assignments		1			
Quality of Reporting			1		
Quality of Recommendations			1		
Total	-	1	3	-	-

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	3	50%	6	86%	3	75%	12	70%
Actions due within last 3 months, but not implemented	2	67%	1	14%	1	25%	4	24%
Actions due over 3 months ago, but not implemented	1	33%	-	-	-	-	1	6%
Totals	6	100%	7	100%	4	100%	17	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 (BCP) is approved and communicated to all relevant officers subject to discussion on the effect of arrangements with partners in Parkside.	Updated BCP was presented to Management Team (MT) on 1/2/2016 and MT determined that 3 workshop sessions are required looking at business impact, priority services and service recovery.	Head of Regulatory Services	31 st May 2013	31 st January 2016 To be confirmed

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.