



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2016

Date: 20<sup>th</sup> September 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, three assignments have been finalised, one report has been issued as draft and fieldwork is underway on a further four assignments. A draft money laundering policy has also been produced, with supporting officer guidance, and is presented to the Committee at this meeting for approval.

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. This review has concluded and a report has been provided to senior management and an action plan has been agreed to address the matters arising. A copy of the report has been provided for the Governance Committee as an exempt item at this meeting.

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 20), the team has been delivering 93% productivity, against the target set of 90%.

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?**

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

Post Handling Arrangements

Internal Audit reviewed the security arrangements and audit trails for the receipting, sorting and collection of incoming post (packages, parcels, and mail) at the Melton Borough Council's Parkside offices to ensure that post is handled in a secure and sensitive manner within a protected and controlled environment.

Internal Audit conducted two visits to the post room (one unannounced and one planned) and testing highlighted some processes and controls which could be strengthened further in relation to access to the post room and audit trails for the handling of large items, such as parcels and packages.

The Council is potentially at risk of unauthorised access to the post room because it is not restricted whilst the post is being opened and sorted and any person with a Parkside swipe card has the ability to enter the post room.

Procedures for handling parcels and packages have not been formally agreed and documented and records to confirm details of all parcel/package deliveries are not maintained which could lead to difficulties in tracing and locating items should a dispute occur.

Internal Audit observed the opening and sorting of post being carried out in accordance with Council procedures and unidentified recipients were dealt with in an appropriate and consistent manner.

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.

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, nine actions from audit reports have been completed by officers, this represents 45% of the actions due for completion during the period. At the date of reporting, there are eleven 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
<b>Financial Risks</b>										
Financial System Key Controls	15	-	●							Quarter 4
Fixed Assets	8	-	●							Quarter 3
Treasury Management	7	-	●							Quarter 3
<b>Governance &amp; Counter Fraud</b>										
Counter Fraud and Ethics Arrangements	10	2.11			●					
Money Laundering	3	1.1			●					Money Laundering Policy drafted. Awareness sessions to follow sign off.
Contract Procedure Regulations Compliance	10	-	●							Quarter 3
<b>Service Delivery Risks and Best Value</b>										
Transformation Programme	10	0.5			●					Consultancy support, as required
Fees and Charges	15	15.6						●	<b>Sufficient</b>	
Staff Development and Training Effectiveness	12	0.6		●						

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Post Handling Arrangements	7	5.3						●	Sufficient	
Disclosure and Barring Service	15	0.8			●					
Grounds and Environmental Assets Maintenance	15	-	●							Quarter 4
CCTV	12	10						●	Sufficient	
s.106 Agreements	10	0.1		●						
Housing Options/ Homelessness Strategy	15	14.3					●			
Out of Hours Standby Service	15	-	●							Quarter 4

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	1.38	
Committee Work, Support & Annual Report	15	3.98	
Recommendation Follow-Up	3	1.14	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	1.89	
Completion of 2014/15 Assignments	-	4.22	
Consortium Management Time	21	3.8	

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.

<b>Aspects of Audit Assignments</b>	<b>N/A</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment		1	1		
Communication during Assignments		2			
Quality of Reporting		1	1		
Quality of Recommendations		1	1		
<b>Total</b>	-	<b>5</b>	<b>3</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	40%	4	40%	3	60%	9	<b>45%</b>
Actions due within last 3 months, but <b><u>not implemented</u></b>	2	40%	5	50%	1	20%	8	<b>40%</b>
Actions due <b><u>over 3 months</u></b> ago, but <b><u>not implemented</u></b>	1	20%	1	10%	1	20%	3	<b>15%</b>
Totals	5	100%	10	100%	5	100%	20	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 <sup>st</sup> May 2013	31 <sup>st</sup> 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.