



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

NOVEMBER 2016

Date: 22nd November 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, six assignments have been finalised and work is underway on a further six assignments.

During November 2016, Money Laundering training has been delivered by the Head of Internal Audit in two targeted sessions with those officers identified as at most risk of being exposed to money laundering.

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 three additional reviews for Melton Borough Council. All of these assignments have been, or are being, delivered by the Head of Internal Audit. The first is an 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 further information will be shared with the Committee as soon as this is appropriate.

The second was a specific, consultancy review of expenditure incurred on Phase 1 of the Leisure Vision Project during 2015/16 which was reported to the Committee in September 2016.

Following the September 2016 Committee meeting, management have commissioned a further review from Internal Audit to provide assurance over wider project management arrangements. This includes reviewing a sample of projects which have recently been

concluded or are ongoing, to confirm whether the governance and control frameworks in place are robust to prevent the weaknesses and compliance issues identified in the Leisure Vision Phase 1 project from occurring. This review is ongoing at the time of reporting and the key findings will be summarised at the next meeting of the Governance Committee.

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 29), the team has been delivering 92% 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, final reports have been issued for two assignments from the 2016/17 Internal Audit Plan. The key findings arising are as follows:

Housing Allocations and Homelessness

The proper and effective operation of housing allocations and homelessness applications supports the Council's corporate priority of helping to provide homes and environments that meet local needs. To achieve this, the Council operates in partnership with other Leicestershire districts and has adopted a sub-regional Choice Based Lettings Scheme.

There is a clear and comprehensive lettings policy and robust procedures for processing housing applications. Staff in the Housing Options Team are highly experienced and have a good understanding of operational systems and procedures, although the small size of the team means there is limited capacity to deal with peaks in workload or periods of staff absence. As such, there is currently a significant backlog of housing applications that are overdue for review.

Testing found that the assessment of applications and property allocation processes were operating in compliance with the approved policy but there are opportunities to improve the quality and completeness of evidence and records supporting eligibility and banding decisions.

Homelessness costs are increasing and the Council's homelessness strategy and action plan are out-of-date. Given the rising costs and significant budget overspends reported for the service in recent years, it is recommended that this strategy be reviewed as soon as possible.

Procedures for processing homelessness applications are clear and effective but again testing highlighted that the quality and completeness of supporting documentation could be improved.

There are sound arrangements in place for applicants to appeal housing and homelessness decisions but Internal Audit testing of compliance was limited due to an inability to identify cases that have been subject to appeal.

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 nine recommendations to further improve the controls. All high and medium priority actions are due for implementation by the end of December 2016.

Counter Fraud and Ethical Governance Arrangements

The Council's leadership has overall responsibility for embedding effective standards to counter fraud and corruption, including putting into place robust policies and procedures. To ensure that staff and contractors are supported to 'do the right thing', a comprehensive anti-fraud and ethical culture needs to be maintained, including clear whistleblowing arrangements. In order to provide assurance over the design and effectiveness of the Council's counter fraud and ethical governance arrangements, this audit has involved a review of the existing policies and procedures and a survey has been issued to all Council staff on their awareness and confidence in using these policies.

Melton Borough Council has acknowledged the risk of fraud and corruption and has clearly stated its zero tolerance approach. A suite of counter fraud and corruption policies has been adopted and made available to staff, alongside a comprehensive Fraud Strategy and Response Plan which cover many key areas recommended as best practice. Feedback from staff has highlighted potential scope to provide a clear, consistent platform for accessing these various key counter fraud and ethical policies. It is also recommended that requirements for disclosing gifts and hospitality and private interests be further clarified and added to the staff induction process.

Regular staff briefings are delivered to pro-actively raise awareness and embed the Council's ethical governance and fraud policies. Staff feedback received during the audit demonstrates that these have proven to be very effective. In relation to whistleblowing arrangements, staff feedback was largely positive, demonstrating strong awareness of the policy. It was also highlighted that 75% of respondents felt confident in using the policy to report suspected fraud or corruption. Procedures are operating effectively to ensure that whistleblowing disclosures are logged and monitored.

In accordance with good practice, fraud risk assessments have been conducted by the Council's senior management team in recent years. The management team promptly respond to alerts and trends and are actively engaging in opportunities to assess emerging and growing fraud risks such as cybercrime. A review of the fraud policies highlighted some opportunities to add further detail to the Fraud Response Plan to ensure full compliance

with good investigative practice and to consider whether all actions originally set in the Strategy continue to focus on key risks.

Based upon the findings of the review, an opinion of **Substantial Assurance** has been given over the controls in place to manage the identified risks. Internal Audit have made ten recommendations to further improve the controls – all of which are intended to further strengthen controls rather than address any significant weaknesses.

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, eleven actions from audit reports have been completed by officers, this represents 44% of the actions due for completion during the period. At the date of reporting, there are 14 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. Three 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. It should be noted that Internal Audit has been advised that all three of these actions have been implemented but the actions cannot be closed until supporting evidence is provided.

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	8.7						●	Substantial	
Money Laundering	3	2.2						●	N/A	Money Laundering Policy approved. Targeted training delivered.
Contract Procedure Regulations Compliance	10	-	●							Quarter 3
Service Delivery Risks and Best Value										
Transformation Programme	10	0.5			●					Consultancy support, as required
Fees and Charges	15	15.6						●	Sufficient	Summarised at June 2016 Committee meeting
Staff Development and	12	5.2				●				

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Training Effectiveness										
Post Handling Arrangements	7	5.3						●	Sufficient	Summarised at September 2016 Committee meeting
Disclosure and Barring Service	15	3.6			●					
Grounds and Environmental Assets Maintenance	15	5.5			●					
CCTV	12	10.1						●	Sufficient	Summarised at June 2016 Committee meeting
s.106 Agreements	10	0.6		●						
Housing Options/ Homelessness Strategy	15	14.9						●	Sufficient	
Out of Hours Standby Service	15	-	●							Quarter 4

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	1.71	
Committee Work, Support & Annual Report	15	6.11	
Recommendation Follow-Up	3	1.68	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	3.02	
Completion of 2014/15 Assignments	-	4.22	

Assignment	Budget	Actual	Comments
Other Client Support			
Consortium Management Time	21	5.72	

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	4		
Communication during Assignments		4	1		
Quality of Reporting		3	2		
Quality of Recommendations		2	3		
Total	-	10	10	-	-

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	2	40%	8	47%	1	33%	11	44%
Actions due within last 3 months, but not implemented	-	-	6	35%	2	66%	8	32%
Actions due over 3 months ago, but not implemented	3	60%	3	18%	-	-	6	24%
Totals	5	100%	17	100%	3	100%	25	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
Housing Repairs 2015/16	Communities and Neighbourhoods	Resolve system limitations for monitoring variations	Advised by officers that action is implemented. Internal Audit awaiting evidence to support implementation before closing.	Head of Communities and Neighbourhoods	31 st July 2016	n/a
Housing Repairs 2015/16	Communities and Neighbourhoods	Reinstate post-repair inspections	Advised by officers that action is implemented. Internal Audit awaiting evidence to support implementation before closing.	Head of Communities and Neighbourhoods	31 st July 2016	n/a
Housing Repairs 2015/16	Communities and Neighbourhoods	Improve documentation and evidence of approval of variations	Advised by officers that action is implemented. Internal Audit awaiting evidence to support implementation before closing.	Head of Communities and Neighbourhoods	31 st July 2016	n/a

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.