



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

FEBRUARY 2017

Date: 7th February 2017

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, nine assignments have been finalised, draft reports have been issued for two audits and work is underway on a further three assignments. As such, at the time of reporting, 86% of the Audit Plan is either complete or in progress.

Progress on individual assignments is shown in Appendix 1.

2.2 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. Due to additional investigation work during 2016/17, an amendment to the Audit Plan is recommended to cover these additional days by deferring the Out of Hours Standby Service audit to 2017/18.

2.3 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.

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

As at week 41, the team has been delivering 96% productivity, against the target set of 90%.

2.5 **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 three assignments from the 2016/17 Internal Audit Plan. The key findings arising are as follows:

Treasury Management

The Council has an appropriately qualified and experienced officer operating its daily Treasury Management responsibilities with all proposals subject to appropriate review and approval by senior officers. Responsible officers keep up to date with statutory requirements and best practice through review of professional websites, available training sessions and guidance from the Council's Treasury Management Advisers.

The Council has an approved Treasury Management Strategy in place, along with Treasury Management Practices and Procedures which are kept up to date in line with any changes to the strategy. The Treasury Management Strategy is approved each year by Full Council, following scrutiny from the Budget and Strategic Planning Working Group and if required approval is also sought at mid-year reviews for any updates. Members are also kept up to date on the Council's Treasury Management position via quarterly Member bulletins.

The approved Strategy outlines the criteria that proposed transactions must meet including time limits and maximum values. Credit rating lists are used to ensure appropriate selection of counterparties for fixed term investments and credit ratings are checked using an online tool for liquid money market fund investments.

The Council's bank balance is checked on a daily basis to ensure accuracy of cash flow predictions and identify opportunities for investment proposals. Any proposals are subject to an appropriate review and approval and an adequate audit trail is maintained to evidence the transaction details and authorisation. Sample testing confirmed procedures were operating as described.

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. No formal recommendations have been made.

Staff Development and Training Effectiveness

In July 2016, the Council created a training and development plan to develop the capacity, capability and innovation of staff as part of Melton's Extending to Excellence programme (ME2E). This is being rolled out across the Council during 2016/17 and 2017/18. Internal Audit sought assurance that the Council has controls in place to identify the training and development needs of staff and is also achieving value for money when procuring from training providers. Internal Audit has also provided consultancy support on the effectiveness of the Council's training plan.

The Council has established a well-designed employee appraisal process that ensures employees review their performance against the Council's priorities and values as well as

identifying individual training and development needs through the production of a Personal Development Plan (PDP). Compliance with this process, however, requirements improvement. Evidence has shown that for some staff appraisals are not carried out regularly, and in some cases not at all, and a significant proportion of employees are not undertaking mandatory training courses.

Efficiencies could also be made by setting an agreed time period for conducting appraisals so that training and development needs can be identified, prioritised and used to inform a corporate training plan or catalogue. This could include ME2E development opportunities as well as both mandatory and discretionary training.

Due to the absence of a dedicated learning and development post within the Council, responsibility for training and development falls to line managers. The introduction of a Training and Development Policy would formalise line manager responsibilities and ensure that performance can be measured.

The training budget for 2016/17 is set as £75,060. Current practice, requires training opportunities to be reviewed and approved by the HR and Communications Manager to ensure value for money is being achieved. This process, however, has not been formalised and audit testing highlighted instances of non-compliance.

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.

Grounds and Environmental Asset Maintenance

Effective maintenance of grounds and environmental assets links directly to the Council's corporate priority to deliver well respected, value for money customer focused services. The service is delivered by an in-house team of staff operating from the Snow Hill depot. Some specialist services are contracted out, but the majority of work is carried out by the Council's own workforce at an estimated gross cost of around £450k per annum. The service was last audited in 2012/13 and was given a 'marginal' assurance opinion.

Based on interviews, current service standards are considered to be of a high quality and customer complaints are rare. However, the lack of a unified service specification and comprehensive service standards makes it difficult to demonstrate that current service levels are consistent with the Council's expectations and strike the right balance between quality and cost. Development of a more formal service specification and associated performance monitoring arrangements would provide a more robust and evidence based framework for effective strategic management of the service.

Management at an operational level is considered effective but relatively informal. Quality control is exercised through routine line management arrangements and informal ad-hoc inspections, but there are no service specific performance indicators. The management of operational vehicles, machinery and equipment is similarly informal and testing identified errors and omissions in the inventory.

A history of over-spending in recent years has led to closer monitoring and management scrutiny in 2016/17 and overall spending remained within budget at the time of the audit. There is a five year capital renewals plan for all vehicles, major items of machinery and play equipment, although these need to be brought up to date and consistent with the inventory. There are clear controls to ensure that spending is not committed prior to approval of a suitable business case. Testing identified one example of non-compliance, although management is satisfied that this was an isolated case and has taken appropriate action.

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 control environment.

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

2.6 **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 15 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. Of these actions, one 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.

2.7 **Additional work being delivering by the Internal Audit service**

Three paragraphs within 2.7 have been removed as it is recommended that the Public be excluded during the consideration of this item of business in accordance with Part 1 of Schedule 12A of the Local Government Act 1972 (Access to Information : Exempt Information) under paragraphs 1, 2 and 7.

Money Laundering

During 2016, a number of sessions were delivered by the Head of Internal Audit with key officers at the Council to raise awareness of the new Money Laundering policy and the responsibilities this places on officers. These sessions have been well attended.

Since the training sessions were delivered, a suspected money laundering referral has been raised by an officer and action was taken fully in line the policy to prevent criminal funds being laundering through the organisation. Internal Audit has supported the handling of this first report and it is very encouraging that such prompt, effective action was taken on this matter and this was handled professionally and sensitively by all officers involved.

This work has been delivered within the current Audit Plan under budgets for advice and assistance and money laundering awareness.

Capital Projects

Following the review of the Leisure Vision Phase 1 project, senior management commissioned a further Internal Audit review of the wider management of capital projects. The report from this review is included on the agenda for the February 2017 Governance Committee and summarises the key findings. This work has been commissioned in addition to the Audit Plan.

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	1.5			●					
Fixed Assets	8	-	●							Quarter 4
Treasury Management	7	4.5						●	Substantial	
Governance & Counter Fraud										
Counter Fraud and Ethics Arrangements	10	9						●	Substantial	Summarised at November 2016 Committee meeting
Money Laundering	3	2.2						●	N/A	Money Laundering Policy approved. Targeted training delivered.
Contract Procedure Regulations Compliance	10	-		●						
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

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Staff Development and Training Effectiveness	12	10.7						●	Sufficient	
Post Handling Arrangements	7	5.3						●	Sufficient	Summarised at September 2016 Committee meeting
Disclosure and Barring Service	15	10.6					●			
Grounds and Environmental Assets Maintenance	15	17.6						●	Sufficient	
CCTV	12	10.1						●	Sufficient	Summarised at June 2016 Committee meeting
s.106 Agreements	10	7.8					●			
Housing Options/ Homelessness Strategy	15	14.9						●	Sufficient	Summarised at November 2016 Committee meeting
Out of Hours Standby Service	15	-	●							May be deferred to 2017/18

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	2.76	
Committee Work, Support & Annual Report	15	6.55	
Recommendation Follow-Up	3	2.05	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	3.87	

Assignment	Budget	Actual	Comments
Other Client Support			
Completion of 2014/15 Assignments	-	4.22	
Consortium Management Time	21	7.9	

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	4	66%	6	40%	2	33%	12	44%
Actions due within last 3 months, but not implemented	1	17%	6	40%	4	67%	11	41%
Actions due over 3 months ago, but not implemented	1	17%	3	20%	-		4	15%
Totals	6	100%	15	100%	6	100%	27	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
Leisure Vision Phase 1 2016/17	Cross-cutting	<p>All projects should have a documented risk register and issues log.</p> <p>This is already a requirement and should be submitted to the programme Board. Project List to be updated to track this requirement. Head of communications via programme board admin.</p>	<p>This is on the agenda for Programme Board in February 2017.</p> <p>To be progressed following the wider project management review by Internal Audit.</p>	Head of Communications	30/09/2016	28/02/2017

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.