



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

APRIL 2017

Date: 4th April 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, twelve assignments have been finalised and work is underway on a further three assignments. As such, at the time of reporting, 86% of the Audit Plan is complete and all remaining assignments are 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.

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 over 95% of the 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 46, the team had 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:

S106 Agreements

Section 106 planning obligations are legal agreements formed between the Council and developers as part of the planning application process. The agreements help make development proposals acceptable when they might otherwise be unacceptable, in planning terms. The audit reviewed two associated risk areas, firstly regarding the agreement of s106 obligations and secondly the monitoring of such obligations to ensure that all secured contributions are received and utilised.

Review determined that adequately skilled and experienced officers are responsible for negotiating s106 obligations. Such negotiations are started as early as possible in the planning process and involve all relevant parties. Parties are able to request contributions, provided that they are justified and in line with regulations and such requests are clearly documented and presented with the planning application. Evidence was found of proposals being amended to address concerns and to include additional requests. No evidence of being required to reduce contribution requests was identified.

Planning Officers are also responsible for logging and monitoring s106 obligations, once agreed, on a monitoring spreadsheet. The monitoring spreadsheet is designed to allow ease of monitoring of associated trigger points. Testing, however, determined scope for improvement in ensuring that all cases are added onto the monitoring record and that the monitoring spreadsheet is kept up to date with the status of agreements. It was also determined that the monitoring spreadsheet does not hold information on balances held or their associated expiry dates. Whilst this information can be obtained from Finance or additional monitoring work completed by the Head of Regulatory Services, the monitoring spreadsheet is designed to be a centralised record and should be expanded to also include this required information.

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 has made four recommendations to further improve the control framework, all of which have been agreed by management.

Disclosure and Barring Service (DBS) Checks

In order to safeguard vulnerable service users, the Council has a duty to exercise appropriate checks over the suitability of those working on the Council's behalf. As the authority granting licences for taxis and private hire vehicles, the Council is also responsible for conducting suitable checks over these applicants.

In August 2016, the Council's list of 'DBS required' posts was updated in light of the revised legislation on regulated roles. It was highlighted during audit testing, however, that this list was incomplete as other new starters since August 2016 had been subject to DBS checks, and their job role would appear to satisfy the requirements of a regulated post, but they were not on the central list. Furthermore, two recent new starters in roles included on the DBS list had not been subject to a DBS check. As such, it would appear that the central list is not being consistently applied and rather that posts continue to be considered individually

at each recruitment exercise. It was also noted that the central list had not been subject to formal senior management approval.

In sample testing, all taxi and private hire licence holders reviewed had been subject to a DBS check in the last three years. The Council's Taxi Licensing Policy currently lacks detail, however, on the implications of convictions identified. It was also highlighted during sample testing that 47% of the licence renewals reviewed from the last 12 months had been granted based on DBS certificates which were more than six months old, including some which were issued based on certificates issued more than two years before. This is due to a change in the frequency of renewals but this is not consistent with Council policy and good practice. It is noted that Council officers had been monitoring DBS dates to identify when three years had lapsed outside of the renewal cycle to ensure drivers were subject to checks on a three yearly basis. The Council is keen to improve these processes and the most effective approach would be to enforce that all taxi and private hire license holders are required to subscribe to the DBS update service. In the meantime, renewals must only be issued where a recent DBS certificate is seen, in accordance with the timescales set in the Council policy.

In 2015, a Code of Practice for DBS registered bodies was published specifying requirements for policies, storage and handling of information and applications. Based on the testing conducted, the Council is complying with the Code of Practice. Some minor issues have been highlighted where consistent practices across the Council should be enforced but overall information is handled sensitively and officers are proficient in the DBS application process.

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 has made 13 recommendations to further improve the control framework, all of which have been agreed by management.

Financial System Key Controls

A review of Melton Borough Council's financial systems was undertaken to provide assurance that sufficiently robust controls are in place, and operating consistently. The audit focussed on payroll processes, housing benefit claims and changes and council tax and national non-domestic rates (NDR) income collection and recovery.

Payroll processes and controls are designed well and operating effectively, with only minor immaterial errors identified by Internal Audit. Starters and leavers are processed accurately and timely and controls over the review and submission of BACS payments are in operation and appropriate review of exception report are carried out to identify any anomalies, errors or possible instances of fraud. Sample testing of employee master data amendments did, however, identify that two employees had been marginally underpaid. The errors have now been corrected and back pay has been paid to the employees involved (less than £150 in total).

Internal Audit found there is a defined structure for the Benefits Service that provides for effective, consistent and reliable segregation of duties between key elements of the benefits

process. Testing provided assurance that new claims and changes were complete, supported by evidence and accurately input onto the benefits system, with only minor immaterial exceptions. However guidance for staff on the how to assess new claims could be strengthened to improve to consistency of evidence accepted. The 2016/17 parameter upload for the housing benefit system (Northgate) was conducted in a timely manner however the arrangements could be strengthened further by evidencing an independent review and producing documented system notes to support the process.

The Council has a well-defined process for the recovery of council tax and NNDR debt. Testing confirmed that appropriate action was taken where required and the recovery of debt is monitored monthly by management. Income is collected and allocated to accounts in a timely manner and unallocated payments are reviewed daily. The Council's Corporate Debt and Income Maximisation Policy was last reviewed in 2013/14 and it is advised to review the document to ensure it remains up to date.

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 has made five recommendations to further improve the control framework, all of which have been agreed by management.

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, 13 actions from audit reports have been completed by officers, this represents 81% of the actions due for completion during the period. At the date of reporting, there are three 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.

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	13.7						●	Sufficient	See section 2.5
Fixed Assets	8	1.4			●					
Treasury Management	7	4.6						●	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	4.9			●					
Service Delivery Risks and Best Value										
Transformation Programme	7	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	Summarised at February 2017 Committee meeting
Post Handling Arrangements	7	5.3						●	Sufficient	Summarised at September 2016 Committee meeting
Disclosure and Barring Service	15	12.1						●	Sufficient	See section 2.5
Grounds and Environmental Assets Maintenance	15	17.6						●	Sufficient	Summarised at February 2017 Committee meeting
CCTV	12	10.1						●	Sufficient	Summarised at June 2016 Committee meeting
s.106 Agreements	10	9.2						●	Sufficient	See section 2.5
Housing Options/ Homelessness Strategy	15	14.9						●	Sufficient	Summarised at November 2016 Committee meeting
Contingency – fraud investigation work	15	10.6						N/A	N/A	Investigation completed

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	3.9	
Committee Work, Support & Annual Report	15	8.7	
Recommendation Follow-Up	3	2.6	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	9.42	

Assignment	Budget	Actual	Comments
Other Client Support			
Completion of 2014/15 Assignments	-	4.22	
Consortium Management Time	21	9.7	

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	6		
Communication during Assignments		4	3		
Quality of Reporting		3	4		
Quality of Recommendations		2	4	1	
Total	-	10	14	1	-

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	67%	8	89%	3	75%	13	81%
Actions due within last 3 months, but not implemented	1	23%	-	%	1	25%	2	13%
Actions due over 3 months ago, but not implemented	-	%	1	11%	-	%	1	6%
Totals	3	100%	9	100%	4	100%	16	100%

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.