



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

DECEMBER 2020

Date: 14th December 2020

Introduction

- 1.1 LGSS provides the internal audit service for Melton Borough Council and has been commissioned to provide 235 audit days to deliver the 2020/21 Annual Audit Plan and undertake other work commissioned by the client.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit and Standards 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 2020/21 be delivered?

LGSS is set the objective of delivering at least 90% of the Internal Audit plans to draft report stage by the end of March 2021.

At the time of reporting, 75% of the Audit Plan is either complete or in progress. This is despite the Internal Audit team avoiding any fieldwork which could present unnecessary pressures or diversion of resource during the pandemic response.

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 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 the time of reporting, the team had been delivering 93% 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?

At the time of reporting, the following audit from the 2020/21 audit plan has been finalised:

Rent arrears

The proper, effective and efficient collection and monitoring of rent arrears from housing tenants supports a number of the Council's key priorities, including delivering quality services to residents. The Council has a housing stock of approximately 1800 properties and total rent arrears of approximately £660k, representing around 9% of the annual rent debit.

The Council's Rent Arrears policy was last updated in April 2019, and whilst it did not contain version control or have details of former tenants' processes after court action had been instigated, it was sufficient in detail in all other areas. Almost all processes and procedures were documented in sufficient detail to ensure that they were fit for purpose, however there were no write off procedures for older and higher arrears. The overall level of arrears reduced in 2019/20 but, before the Covid-19 pandemic, remained higher than national averages. Sample testing identified that in all cases, the correct recovery action was being taken for the stage of recovery, and that recovery was generally timely and appropriate, though in some former tenant arrears cases, there was some delayed action due to court functions being affected by the Covid-19 pandemic.

Notice to Seek Possession processes and advice/guidance to tenants were in line with legislative guidelines and sample testing highlighted that key controls are operating as intended in both areas.

Northgate system user set up processes were found to be outdated, with a possibility of users having access to more functionality than is required for their role. Therefore, a review of current user job roles and a record of clear user profiles for differing levels of access would assist in reducing the risk to data and access controls.

Whilst monthly performance monitoring is conducted for rent arrears, improvements could be made in reporting arrears targets to SLT and members. This would place more focus on arrears targets and enable effective monitoring.

Based upon the findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion		
Control environment	Satisfactory	●
Compliance	Good	●
Organisational impact	Minor	●


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

2.6 **Are clients progressing audit recommendations with appropriate urgency?**

Since the last committee meeting, three actions from audit reports have been completed by officers. At the date of reporting, there are 27 agreed management actions which are overdue

for implementation. An analysis of the implementation of actions is provided in Appendix 3. There are seven actions which were assessed as 'High' priority which have been overdue for more than three months – full details are 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	Control Environment	Compliance	Org Impact	Comment
Corporate Governance & Counter Fraud												
Procurement compliance	10	0.5		●								
Ethics and equalities	10	10				●						
Key Corporate Controls & Policies												
Key Financial Controls	15	1			●							
Financial management code (consultancy)	12	3			●							
Budgetary control	12	-	●									
Corporate Objective: Shaping places												
Cattle Market	18	16					●					
Cemetery consultancy support	5	5						●	N/A Consultancy support			
Corporate Objective: Great Council												
Asset management	15	0.5		●								

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Lifeline income	3	0.5			●							
Corporate Objective: Helping People												
Rent arrears	10	12						●	Satisfactory ●	Good ●	Minor ●	See section 2.5
Landlord health and safety (follow up)	15	0.5	●									
Housing repairs	15	-	●									

Assignment	Budget	Actual	Comments
Other Client Support			
Covid 19 support – governance and financial management assurances	30	18	
Business grants / counter fraud support	12	8	
Advice & Assistance	3	2	
Contingency	5	-	
Committee Work, Support & Annual Report	15	4.5	
Recommendation Follow-Up	3	2	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	7.5	
Internal Audit Management & Development	21	9.5	




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 can expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
Major		The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate		The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor		The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
High		Action is imperative to ensure that the objectives for the area under review are met.
Medium		Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low		Action recommended to enhance control or improve operational efficiency.

Appendix 2: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) 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	-	-	2	13%	1	14%	3	10%
Actions due within last 3 months, but not implemented	-	-	1	6%	2	29%	3	10%
Actions due over 3 months ago, but not implemented	7	100%	13	81%	4	57%	24	80%
Totals	7	100%	16	100%	7	100%	30	100%

Appendix 4: 'High' Priority actions overdue for more than three months

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
Right to Buy 2018-19	Housing & Communities	<p>Policy/procedures</p> <p>A policy/procedures should be developed to specify the controls that should be exercised for all right to buy applications. Details of specific controls, and templates, have been provided by the LGSS Counter Fraud team and should cover both fraud and money laundering risks.</p>	Draft Policy and relevant proformas drafted. To be submitted for Member approval by end March 2021.	Housing, Welfare and Safer Communities Manager	31/07/2019	31/03/2021
Right to Buy 2018-19	Housing & Communities	<p>Templates for evidence</p> <p>The existing checklist should be further developed and formalised – or a similar record developed to capture the key controls. Each key control should be evidenced in line with the standard template developed for this purpose, and subject to a review by an independent officer before the</p>	Draft Policy and relevant proformas drafted. To be submitted for Member approval by end March 2021.	31/07/2019	31/07/2019	31/03/2021

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
		procedures implemented, ideally on a completion.				
Effectiveness of Case Management Arrangements 2019-20	Housing & Communities	<p>Prepare a formal service specification</p> <p>Prepare a formal service specification or plan setting out the overall aims and objectives of the IHM service, expected outcomes and detailed description of the services provided. This should clearly distinguish between welfare and tenancy based services and how they are delivered to maximise effectiveness and value for money.</p>	The Council's resources continue to be directed at the impact and recovery from Covid 19. The revision of Case Management will be incorporated into the People Recovery work strand and revised Corporate Plan under the "Community Hub Plus" model. A revised target for completion is given as 31 December 2020.	Director of Housing & Communities	30/11/2019	31/12/2020
Effectiveness of Case Management Arrangements 2019-20	Housing & Communities	Develop a broader and meaningful range of performance indicators	As above.	Director of Housing & Communities	30/11/2019	31/12/2020
Effectiveness of Case Management	Housing & Communities	Undertake a workload and capacity analysis	As above.	Director of Housing & Communities	30/11/2019	31/12/2020

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
Arrangements 2019-20						
Landlords Health & Safety 2019-20	Housing & Communities	Asbestos Surveys	<p>In relation to data management, we have continued to audit and quality check data, bringing together all records from contractors ready to populate the Housing and Asset Management System - this shows there is now 46 properties with no survey, compared to 441 in November 2019.</p> <p>We are looking at our planned workstreams using them as a basis to co-ordinate new and refresh older surveys. Once we have completed this work we will order the remaining surveys with a revised target for this work of December 2020.</p>	Director of Housing & Communities	31/12/2019	31/12/2020
Landlords Health & Safety 2019-20	Housing & Communities	Central record of all health and safety inspections	Reflecting the build time for the new Housing Management modules, this will not be complete until March 2021. In the meantime, master spreadsheets allow effective management	Director of Housing & Communities	01/04/2020	31/03/2021

Appendix 5: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Standards 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 Internal Audit 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 Internal Audit's attention. As a consequence, the Audit and Standards 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 Internal Audit'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.

Internal Audit 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.