

MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2021



Introduction

- 1.1 The delegated internal audit service for Melton Borough Council has been commissioned to provide 235 audit days to deliver the 2021/22 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?

Internal Audit is set the objective of delivering at least 90% of the Internal Audit plans to draft report stage by the end of March 2022.

At the time of reporting, 53% 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.

2.3 Are clients satisfied with the quality of the Internal Audit assignments?

Responses received to the Customer Satisfaction Questionnaire are summarised 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 94% 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 audits from the 2021/22 audit plan have been finalised:

Community grants

The Council's community grants fund aims to continue promoting and supporting local projects and services in an effective, local and community-led manner as an alternative to direct provision by the Council, by supporting sustainable projects and enabling organisations to benefit the Melton community. The application window in relation to grant funding for this financial year closed on 16th December 2020, with total grant funding of £47.7k being made available to eligible applicants.

The Council's community grants policy is clear and concise, and is consistent with the Council's corporate priorities. The policy could be further enhanced by including matters in relation to the small grant application process, and more information in relation to the terms and conditions of grant funding, such as the recovery of misused or unused funds. Management may also wish to include such information within the applicant declaration and / or the confirmation email which is currently issued to successful applicants.




Appropriate officers are involved in the decision-making process, controls could be further enhanced by clearly defining roles and responsibilities, and some areas for improvement have been identified with regards to current record-keeping arrangements, in order to demonstrate that a consistent, fair and transparent decision-making process exists.

Sample testing confirmed that grant fund applications had met the eligibility criteria as per the community grants policy, and all had been subject to Cabinet approval. Pre-grant due diligence procedures will require strengthening to provide assurance that all recipients are solvent and deemed to be appropriate.

A clear declaration is required for grant funding over £1k, to confirm that the applicant is suitably authorised; the information submitted is true and complete; and that the grant will only be used for the purposes specified. Including such information on the small grant application form (under £1k) may further enhance control. Internal Audit review confirmed that all grant funding had been paid via BACS into the correct bank account.

Matters in relation to performance monitoring are clearly communicated within the policy, and whilst it is understood that informal discussions have taken place with one of the organisations included within the test sample, no such monitoring has taken place for the remaining four organisations, two of which have completed their projects at the time of reporting. Whilst it is understood that no significant grant risks or issues have been raised during 2020/21 to date, sample testing has confirmed that key due diligence documentation / information has been sought retrospectively.

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

Assurance Opinion	
Control environment	Good 
Compliance	Satisfactory 
Organisational impact	Minor 

Procurement cards

Procurement Cards are intended to provide an alternative route for purchasing lower value goods and services and providing greater flexibility on faster and easier methods of payment. The Council's last audit on Procurement Cards was during 2015/16. At the time of the last audit, card use was restricted to eight cards and predominantly online purchases. Due to the Covid-19 pandemic, increased usage of procurement cards has been noted, given the increase in remote working, and the number of cards has increased to fifteen.

The Council has guidance on procurement cards which is clear and comprehensive and includes controls for managing the risk of fraud and misuse. Most cardholders have signed acceptance of the Council's Code of Conduct, which clearly states that misuse can result in disciplinary procedures, and officers and directors are expected to monitor the value of card use through monthly review and approval processes. Whilst procedures are in place for correctly using cards and reviewing and approving purchases, there is no guidance in the event of a change in roles or a member of staff leaving the organisation.

Expenditure on the cards is subject to appropriate evidencing of spend, and sample testing confirmed that spending was accurately recorded on transaction logs and included appropriate coding VAT and accounting codes. Each cardholder has the ability to review transactions on the cards by downloading the monthly statement from the card provider using a unique login and password and reviewing this with transaction logs before submission for payment.

To date there is no analysis on procurement card spend carried out, which would assist in identifying unusual spending habits, or could assist in ensuring that the ordering and invoicing procedures are used where appropriate.

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


Assurance Opinion		
Control environment	Substantial	●
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, five actions from audit reports have been completed by officers. At the date of reporting, there are 16 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 3. There are four 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	8	-	●									
Risk and performance framework	10	-	●									
Covid 19 recovery	14	-		●								
Local taxation fraud	10	-		●								
Key Corporate Controls & Policies												
Key financial controls	15	-	●									
Project management	10	-	●									
Starters and leavers	8				●							
Procurement cards	8							●	● Substantial	● Good	● Minor	See para 2.5
Asset management - leases	8					●						
Corporate Objective: Shaping places												




Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Land charges	10				●							
Planning service review	12	-	●									
Planning enforcement	10	1		●								
Corporate Objective: Helping People												
Temporary accommodation	12	-	●									
HRA business plan	15	-	●									
Intensive housing management service	10			●								
Community grants	10							●	Good ●	Satisfactory ●	Minor ●	See para 2.5
Housing repairs	10	-	●									

Assignment	Budget	Actual	Comments
Other Client Support			
Covid 19 support – governance and financial management assurances	30	24	
Business grants / counter fraud support	12	9	
Advice & Assistance	3	2.5	

Assignment	Budget	Actual	Comments
Other Client Support			
Contingency	5	-	
Committee Work, Support & Annual Report	15	8	
Recommendation Follow-Up	3	2.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	10	
Internal Audit Management & Development	21	17	




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		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	-	2	1	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	1	20%	3	33%	1	14%	5	24%
Actions due within last 3 months, but not implemented	-		3	33%	-	-	3	14%
Actions due between 3 and 6 months ago, but not implemented	2	40%	2	22%	1	14%	5	24%
Actions due over 6 months ago, but not implemented	2	40%	1	12%	5	72%	8	38%
Totals	5	100%	9	100%	7	100%	21	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
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>	<p>Management are aiming to commence the IHMS service review before the end of September through an external body/consultant. Once this has been completed an action plan will be compiled to satisfy the recommendations.</p> <p>Action Plan should be in place by end of October 2021.</p> <p>Internal Audit follow up work scheduled for later this year.</p>	Director of Housing & Communities	30/11/2019	31/10/2021
Landlords Health & Safety 2019-20	Housing & Communities	Asbestos Surveys	Northgate Asbestos module implemented and now live enabling all data and recommendations to be saved against the property.	Director of Housing & Communities	31/12/2019	31/05/2021
Rent arrears 2020-21	Housing & Communities	Record and maintain profile information of Northgate Housing system users so that levels of access are clear and there is limited risk of wider access unnecessarily	Due to recent restructuring, this action has been re-allocated to the Tenancy Services team.	Reallocated to Tenancy Services		

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
		being given to members of staff who do not require it for their role.				
Rent arrears 2020-21	Housing & Communities	Conduct a review (with the assistance of Northgate if required) of current user profiles and user job roles and ensure appropriate access has been given for the role. Compile a list of system administrators who have access to create profiles for new users.	Due to recent restructuring, this action has been re-allocated to the Tenancy Services team.	Reallocated to Tenancy Services		

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.