

MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

JANUARY 2022



## ***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 2021/22 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, 71% 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?**

Since the last committee meeting, the following audits from the 2021/22 audit plan have been finalised:

## Asset management - leases

The Council must manage the risks arising from the management of its portfolio of assets and seek to maximise income to be generated from these to support front line services. There are many aspects of property management which are required if the assets are to be maintained properly, costs and income are to be effectively managed and the landlord/tenant relationship is to remain effective.

In 2020/21, an Internal Audit on Asset Management was completed. The scope of this review excluded coverage on leased assets, on the basis that there was substantial work underway in this area at that time. As such, this separate, targeted audit was included in the 2021/22 audit plan, to seek assurances over the management of these leases.

2020/21 saw the establishment of a dedicated Corporate Asset team at the Council. It is evident from the findings of this audit that the work conducted during this time has been extensive and has greatly strengthened the control environment in this area. The Council now benefits from the skillsets of the officers in post and a clear focus on embedding effective asset management practices.

It is acknowledged that there remains work to be completed to address all of the historic gaps in controls but the work to date has clearly identified those gaps and actions are underway to resolve these. It is noted, for example, that of the lease agreements in place, 52% had expired at the time of testing and there has been no regime in place for consistent and regular rent reviews. Whilst income continues to be collected in line with the latest lease agreement, there remains a risk that the rent may not be aligned with market rates and if the tenant were to default there would be a lack of current legal agreement in place to support enforcement. An agent has been appointed to agree new lease agreements and rent reviews with those tenants; this remains a work in progress at the time of reporting.

There are established processes in place for the raising of invoices associated with the property leases and sample testing confirmed 92% of invoices selected had been raised in line with the tenancy records. The exceptions related to a tenancy where rent charged was below that specified in the latest agreement (by £500 per annum since 2018) and officers have advised that recovery action will now take place in relation to this. It is noted that the Corporate Asset team receive records on outstanding debts but effective use of, and access to, detailed financial information could be improved to strengthen processes going forward.

The Council has established some key performance indicators in relation to income from leased assets. Following some review to ensure they are suitably specific and measurable, this should assist in informing ongoing monitoring of this area going forward.

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	Satisfactory ●
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?**















At the date of reporting, there are 25 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.

**2.7 Are any changes to the Audit Plan required?**

As discussed at a previous meeting of the Audit & Standards Committee, the work on the Housing Revenue Account (HRA) business plan remains ongoing at this time. It is proposed that any audit coverage on this would be of greater value in 2022/23, at which point Internal Audit will seek assurance over the process followed to develop the plan and the basis upon which it has been informed. It is recommended that this audit be postponed to 2022/23 and that the days allocated to this be reassigned to support contingency support and, specifically, Internal Audit review of the Council's recharges for mobile phone fees, which have been flagged as an area of financial pressure/risk.

**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
<b>Corporate Governance &amp; Counter Fraud</b>												
Procurement compliance	8	-										
Risk and performance framework	10	1.5										
Covid 19 recovery	14	5.5										
Local taxation fraud	10	1										
<b>Key Corporate Controls &amp; Policies</b>												
Key financial controls	15	4										
Project management	10	5										
Starters and leavers	8	8										
Procurement cards	8	8							 Substantial	 Good	 Minor	
Asset management – leases	8	8							 Satisfactory	 Satisfactory	 Minor	See section 2.5

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Corporate Objective: Shaping places												
Land charges	10	10						●	Satisfactory ●	Satisfactory ●	Minor ●	
Planning service review	12	-	●									
Planning enforcement	10	1		●								
Corporate Objective: Helping People												
Temporary accommodation	12	7			●							
HRA business plan	15	-	●									Postpone to 2022/23
Intensive housing management service	10	-	●									
Community grants	10	10						●	Good ●	Satisfactory ●	Minor ●	
Housing repairs	10	-		●								




Assignment	Budget	Actual	Comments
Other Client Support			
Business grants / counter fraud support	12	9	

Assignment	Budget	Actual	Comments
Other Client Support			
Contingency	-	10	
Advice & Assistance	3	2	
Committee Work, Support & Annual Report	15	7	
Recommendation Follow-Up	3	2.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	10	
Internal Audit Management & Development	21	11	

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.




<b>Compliance Assurances</b>		
<b>Level</b>	<b>Control environment assurance</b>	<b>Compliance assurance</b>
<b>Substantial</b> ●	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.
<b>Good</b> ●	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.
<b>Satisfactory</b> ●	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.
<b>Limited</b> ●	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.
<b>No</b> ●	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
<b>Major</b>		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.
<b>Moderate</b>		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.
<b>Minor</b>		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
<b>High</b>	 Action is imperative to ensure that the objectives for the area under review are met.
<b>Medium</b>	 Requires actions to avoid exposure to significant risks in achieving objectives for the area.
<b>Low</b>	 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.

<b>Aspects of Audit Assignments</b>	<b>N/A</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment	-	1	-	-	-
Communication during Assignments	-	1	-	-	-
Quality of Reporting	-	-	1	-	-
Quality of Recommendations	-	-	-	1	-
<b>Total</b>	-	<b>2</b>	<b>1</b>	<b>1</b>	-

**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 <b>implemented</b> since last Committee meeting	-	-	-	-	-	-	-	-
Actions due within last 3 months, but <b>not implemented</b>	-		3	%	2	18%	5	<b>20%</b>
Actions due <b>between 3 and 6 months</b> ago, but <b>not implemented</b>	-	-	3	%	2	18%	5	<b>20%</b>
Actions due <b>over 6 months</b> ago, but <b>not implemented</b>	4	67%	4	%	7	64%	15	<b>60%</b>
Totals	4	100%	10	100%	11	100%	25	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>	A review of the service has been commissioned and interim findings report has been shared with strategic leads. Alongside this, a review of future options for lifeline service is underway and it is anticipated that both reviews will enable a new model of service delivery in melton to support people to remain independent at home will be developed. The reviews will lead to future options being developed for member consideration. Scrutiny workshop session planned for January 2022. Audit of emerging 'new model' will take place March 2022, to ensure that it is robust and to provide assurance that it is designed in a way that can deliver the required outcomes	Director of Housing & Communities	30/11/2019	28/02/2022
Landlords Health & Safety 2019-20	Housing & Communities	Asbestos Surveys	A further, third party audit has been completed which highlighted a number of areas for improvement and action. This included the recommendation that previous, historic data, may not be suitable and	Director of Housing & Communities	31/12/2019	As soon as possible

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
			<p>new surveys should be undertaken. We have reviewed the current schedule of surveys and identified where new surveys are required. A newly appointed contractor is in the process of completing those surveys. We will report progress at the next update.</p>			
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 being given to members of staff who do not require it for their role.	<p>The service have already locked down key customer details to those individuals and teams that require access. Officers are continuing to build profiles within the system on a team-by-team basis to ensure future consistency.</p> <p>This action is to be included on future digital board updates to provide enhanced focus and assurance.</p>	Tenancy Services	31/03/2021	31/01/2022
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.	See action above.	Tenancy Services	31/03/2021	31/01/2022

## ***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.