

MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

MARCH 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, 100% of the Audit Plan is either complete or in progress, with remaining assignments being actively delivered in March 2022.

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:

## **Procurement compliance**

The Council's Contract Procedure Rules (CPRs) are designed to ensure probity and value for money when procuring goods, works or services that meet the Council's needs and comply with legal requirements. Issues and shortcoming in procurement documentation has been reported by Internal Audit in previous years and have been reviewed again as part of the 2021/22 audit. The audit was carried out to provide assurance that officers are complying with the approved rules and practices. The scope of the audit was to test a sample of seven new contracts (one of under £50,000 and six over £90,000 in value) awarded during the 2021/22 financial year to date and confirm whether evidence of compliance with relevant CPR requirements (based on value/applicable threshold) was available. In three of the cases sampled, the contract was awarded via a formal tender and testing included evidence relating to advertising, completion of conflict of interest forms, evaluation processes and use of e-tendering systems for receipting and handling bids. In three cases, where an approved framework agreement was drawn upon, evidence was sought of compliance with relevant framework requirements. Testing also included a contract extension, where evidence of compliance with contractual requirements and Council procedure was sought.

To comply with the Local Government Transparency Code the Council publishes all expenditure over £500 on its website together with a link to the online contracts register. Concerns regarding the completeness and accuracy of the contracts register have been reported in previous years. As a result, last year's report included a recommendation to undertake a periodic review and verification of the contracts register. At the time of this year's audit the work to implement the recommendation was ongoing, with a process having been developed, officers trained and the first verification exercise underway. Consequently, Internal Audit review of expenditure reports for 2021/22 and comparison to the contracts register identified a continued number of discrepancies due to this new process being in the early stages of implementation. However, it is expected that this issue will be resolved once the new procedure is fully operational and embedded. Internal Audit will continue to monitor progress and improvements at future audits.

Current CPRs were updated in May 2021 and can be accessed by all staff on the intranet, together with a detailed procurement toolkit and templates. Annual refresher training is provided to relevant staff covering procurement awareness, CPR requirements and Framework compliance. In addition, procurement reminders and tips have been published on the intranet and in Corporate Messenger, together with updated articles and reminders throughout 2021 and into 2022. Audit testing indicates that these initiatives are having a positive effect. Significant improvements in the level of compliance with the Council's procurement controls were identified this year. Testing of a sample of seven new contracts found that 100% were awarded in line with the CPRs, with two compliance issues related to sealing of contracts and publishing of an award notice. Testing of one contract extension confirmed that the extension was allowed within the original contract and therefore fully complied with contract procedure rules; although the extension agreement documentation could not be located by officers, following a change in personnel, and as such could not fully evidence compliance with internal procedures. Saving of documentation in a central location, as recommended by Internal Audit in previous years, would mitigate this risk.

No formal recommendations have been made this year as prior year recommendations have been implemented and good progress is being made with improvements made and this is indicated by the higher level of compliance demonstrated through the testing than previous years. The continuation of training and awareness initiatives should help to ensure that these improvements are sustained going forward.

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

Assurance Opinion		
<b>Control environment</b>	Good	●
<b>Compliance</b>	Good	●
<b>Organisational impact</b>	Minor	●

### Performance and risk management framework

The Council's Performance and Risk Management Framework sets out the Council's approach to managing performance and risk as it seeks to ensure delivery of its Corporate Strategy priorities, as well as ensuring effective service performance and organisational governance. It provides Members with visibility and assurance regarding the Council's approach to performance and risk management and how that supports policy and budgetary development. The scope of the audit was to seek assurance that the framework is sufficiently designed and implemented effectively – by seeking evidence that it is aligned to the Council's strategic aims and objectives, clearly defined and communicated, and applied consistently at a corporate and service level.

Overall, the Performance and Risk Management Framework is concise, clear, and consistent in structure and content. It enables the Council to make effective, well-informed and timely decisions which focus on the outcomes expressed in the corporate strategy.

Audit review confirmed the framework provides clarity about how the performance management system works, raises awareness and understanding of performance management and explains how the various components of performance all fit together. Roles and responsibilities are outlined to ensure accountability and transparency.

It is evident that the management of risks to objectives being achieved is an essential part of the Council's performance management framework. Risk management is embedded throughout the organisation ensuring that both operational and strategic risks are captured, assessed, managed and reviewed. However there is scope for more regular, and potentially in depth, risk reporting at Audit and Standards Committee, with a move to six monthly reports already agreed.

No formal recommendations were made as a result of this audit. Based upon the findings, Internal Audit has given the following assurance opinions over the management of the associated risks:

Assurance Opinion		
<b>Control environment</b>	Good	●
<b>Compliance</b>	Good	●
<b>Organisational impact</b>	Minor	●

### **Covid 19 recovery**

In responding to the pandemic local authorities have had to develop new ways of working to support local communities and businesses and ensure that services continue to be delivered whilst safeguarding staff and local residents. The national lock-downs required the rapid establishment of local support systems, remote working arrangements and application of flexible governance and internal control arrangements. Now that national restrictions have been lifted councils are focusing on recovering to business as usual whilst remaining vigilant and ensuring any efficiencies associated with new working practices are retained. The scope of this audit included a limited review of the Council's initial response to the pandemic but focused primarily on management of the recovery stage, including re-establishing effective governance and internal control arrangements going forward.

Based on discussion with officers and review of documentation, it is evident that appropriate governance and decision making structures were put in place as part of the initial response to the pandemic, consistent with the Council's business continuity plans. Testing confirmed that effective arrangements were also in place for ensuring all decisions were properly recorded and reviewed where appropriate. Business continuity plans are currently being reviewed and refreshed to ensure they remain fit for purpose and take account of any lessons learned.

Arrangements for management of the recovery process are also sound. Governance structures were refined as the Council moved through recovery phases and were supported by comprehensive plans, good communications and effective performance management. These arrangements and associated recovery actions were found to be broadly consistent with the other councils in Internal Audit's client base, albeit the format and structure varies between authorities. The Council's arrangements for integrating recovery plans with wider corporate and service planning and improvement processes is a particular strength.

No significant new or increased risks have been identified arising from new ways of working, although management should continue to monitor these arrangements as the new hybrid working model becomes fully embedded and take appropriate action if any additional risks emerge.

No formal recommendations were made as a result of this audit.

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

<b>Assurance Opinion</b>		
<b>Control environment</b>	Substantial	●
<b>Compliance</b>	Substantial	●
<b>Organisational impact</b>	Minor	●

## **Project management**

This report summarises the findings of a review of arrangements the Council has put in place to ensure that projects are managed effectively. The scope of the audit sought to confirm that the Project Management Toolkit introduced during 2019/20 included appropriate documentation and controls to minimise risk in the four areas summarised in the table below. Testing on the application of the Toolkit to a sample of 5 projects was undertaken on a high level basis to establish the extent to which the Toolkit is being applied to project management in practice. Projects selected for testing were:-

- Asset Development Programme
- Replacement Financials System
- Rail Connectivity
- NPS Integrated Housing System
- Food Enterprise Centre

The project management methodology and associated Toolkit prepared by the IT Programme Manager (who at the time was employed in a project management specific role) is a comprehensive process that satisfies all the requirements of internationally recognised methodologies such as PRINCE2. When implemented in full (such as in the case of the NPS Integrated Housing System, the Replacement Financials System and the Asset Development Programme) it provides a consistent and effective audit trail of the project management process.

Testing of the sample of projects generally confirmed that primary documentation required by the methodology was completed to an appropriate standard. Copies of Project Charters and Business Cases were obtained to confirm that project costings were included, that outputs from the project were appropriately described and that success criteria were identified. The audit did, however, identify that documentation for the Food Enterprise Centre project was not completed to a sufficient standard. External support had been obtained for this project and, whilst actions had been taken to deliver the various aspects of the project, a number of improvements were required to documentation such as the Project Charter and Risk Register. At the time of reporting, a revised Project Charter had been drafted and provided to Internal Audit, with further improvements to documentation including Risk and Issue Logs, an updated Project Plan and the preparation of formal Highlight Reports being planned.

Testing of the sampled projects identified that where project risk registers were completed, the pro-forma document had been used and therefore an appropriate level of information had been recorded in respect of project risk management. It was noted there is currently no formal process that links the management of project risks to the Council's Corporate Risk Register and a recommendation has been made in regards to this.

The principal challenge is in ensuring that the methodology is applied consistently and appropriately to all projects, and that projects are sufficiently resourced with support and management roles to facilitate this compliance. The audit report recommends a review of the operation of the methodology through engagement with staff who have undertaken project management roles to establish what lessons can be learned from its practical application thus far to projects being implemented at the Council. This may identify opportunities to streamline processes where there may be duplication of effort in governance processes, as well as providing an opportunity to reflect on whether resourcing of project management and support is currently 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 Audit and Standards Committee meeting, ten audit recommendations have been completed.

At the date of reporting, there are 20 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 3. There is one action which was assessed as 'High' priority and has 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	8						●	Good 	Good 	Minor 	See section 2.5
Risk and performance framework	10	9						●	Good 	Good 	Minor 	See section 2.5
Covid 19 recovery	14	14						●	Substantial 	Substantial 	Minor 	See section 2.5
Local taxation fraud	10	2.5			●							
Key Corporate Controls & Policies												
Key financial controls	15	13					●					
Project management	10	10						●	Substantial 	Good 	Minor 	See section 2.5
Starters and leavers	8	8					●					Awaiting responses
Procurement cards	8	8						●	Substantial 	Good 	Minor 	
Asset management – leases	8	8						●	Satisfactory 	Satisfactory 	Minor 	

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	7				●						
Planning enforcement	10	8				●						
Corporate Objective: Helping People												
Temporary accommodation	12	11			●							
Intensive housing management service	10	1			●							Engaging with internal review in March 2022
Community grants	10	10						●	Good ●	Satisfactory ●	Minor ●	
Housing repairs	10	1.5			●							

Assignment	Budget	Actual	Comments
Other Client Support			
Business grants / counter fraud support	12	9	
Mobile phone data analysis	12	10	

Assignment	Budget	Actual	Comments
Other Client Support			
Contingency	-	10	
Advice & Assistance	3	2	
Committee Work, Support & Annual Report	15	11	
Recommendation Follow-Up	3	2.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	10	
Internal Audit Management & Development	21	16	

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
<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	-	3	-	-	-
Communication during Assignments	-	3	-	-	-
Quality of Reporting	-	1	2	-	-
Quality of Recommendations	1	1	-	1	-
<b>Total</b>	<b>1</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>-</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	3	50%	5	46%	2	15%	10	<b>33%</b>
Actions due within last 3 months, but <b>not implemented</b>	2	33%	1	9%	3	24%	6	<b>20%</b>
Actions due <b>between 3 and 6 months</b> ago, but <b>not implemented</b>	-	-	1	9%	2	15%	3	<b>10%</b>
Actions due <b>over 6 months</b> ago, but <b>not implemented</b>	1	17%	4	36	6	46%	11	<b>37%</b>
Totals	6	100%	11	100%	13	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
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 Intensive Housing Management Service (IHMS), 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>A review of the service was previously commissioned and findings shared with strategic leads. Unfortunately this review did not provide the required options appraisal to inform a revised service delivery model. This has been addressed through the development of a cross directorate project team now working to develop a revised service offer to support people to remain independent at home. This is being led by the interim strategic projects lead and will be informed by a full customer journey review across various services including housing options, IHMS, tenancy services and lifeline. SLT were briefed on the progress of this work w/c 17.01.22.</p> <p>The review will lead to future options being developed for member consideration. Scrutiny committee members have agreed to have a workshop session to support and shape development – the date of this is to be confirmed. An audit of the</p>	Director of Housing & Communities	30/11/2019	30/04/2022

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
			emerging service model is also scheduled to take place in 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.			

## ***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.