



**MELTON BOROUGH COUNCIL
INTERNAL AUDIT ANNUAL REPORT
2016/17**



Head of Internal Audit: Rachel Ashley-Caunt

1. Background

1.1 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion and report that can be used by the organisation to inform its annual governance statement. The Standards specify that the report must contain:

- an Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
- a summary of the audit work from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- a statement on the extent of conformance with the Standards including progress against the improvement plan resulting from any external assessments.

2. Head of Internal Audit Opinion 2016/17

2.1 This report provides a summary of the work carried out by the Internal Audit service during 2016/17 and the results of these assignments. Based upon the work undertaken by Internal Audit during the year, the Head of Internal Audit's overall opinion on Melton Borough Council's system of internal control is that:

It is my opinion that **Sufficient Assurance** can be given over the adequacy and effectiveness of the Council's control environment operating for 2016/17. This control environment comprises of the system of internal control, governance arrangements and risk management. The level of assurance remains at a consistent level from 2015/16.

Controls relating to the key financial systems which were reviewed during the year were concluded to be generally operating effectively, with an opinion of Sufficient Assurance given over the adequacy and compliance with the key controls.

Of the internal audit assignments delivered during 2016/17, one has resulted in an opinion of less than Sufficient Assurance. Additional consultancy work commissioned during 2016/17 also highlighted areas of control weakness and non-compliance in relation to the management of recent capital projects and award of contracts. A number of recommendations have been made and promptly implemented to strengthen the control environment in these areas.

Internal Audit has not been made aware of any further governance, risk or internal control issues which would reduce the above opinion.

No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.2 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments from the risk-based Internal Audit plan that have been undertaken throughout the year, as summarised in Table 1 and further detailed in Table 3. An overview of all Internal Audit assignments and the basis for the resulting opinions is provided in Appendix 1.
- 2.3 This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing any control weaknesses. The implementation of audit recommendations during the year has been strong, with 85% of actions from 2016/17 reports which were due for implementation being completed during the year, as summarised in Table 4. Thereby, providing assurance that areas of weakness in the control environment have been suitably addressed.

A summary of Audit Opinions is shown in Table 1:

Table 1 – Summary of Audit Opinions 2016/17:

Area	Substantial	Sufficient	Limited	No
Financial Systems	2	1	-	-
Governance & Counter Fraud	1	-	1	0
Service Delivery Risks & Best Value	-	8	-	0
Total	3	9	1	0
Summary	23%	69%	8%	0%
with 2015/16 Comparison	(18%)	(46%)	(36%)	(0%)

3. Review of Audit Coverage

Audit Opinion on Individual Audits

- 3.1 The Committee is reminded that the following assurance opinions can be assigned:

Table 2 – Assurance Categories:

Level of Assurance	Definition
Substantial	There is a robust framework of controls making it likely that service objectives will be delivered. Controls are applied continuously and consistently with only infrequent minor lapses.

Level of Assurance	Definition
Sufficient	The control framework includes key controls that promote the delivery of service objectives. Controls are applied but there are lapses and/or inconsistencies.
Limited	There is a risk that objectives will not be achieved due to the absence of key internal controls. There have been significant and extensive breakdowns in the application of key controls.
No	There is an absence of basic controls resulting in inability to deliver service objectives. The fundamental controls are not being operated or complied with.

3.2 Audit reports issued in 2016/17, other than those relating to consultancy support, resulted in the provision of one of these audit opinions. All individual reports represented in this Annual Report are final reports and, as such, the findings have been agreed with management, together with the accompanying action plans. The only exception relates to the Contract Procedure Rule Compliance audit, for which the final draft report is currently with management to agree the action plan.

Summary of Audit Work

3.3 Table 3 details the assurance levels resulting from all audits undertaken in 2016/17 and the date of the Committee meeting at which a summary of the report was presented.

Table 3 – Summary of Audit Opinions 2016/17:

Audit Area	Audit Opinion	Committee Date
Financial		
Key Financial System Controls	Sufficient	April 2017
Fixed Assets	Substantial	June 2017
Treasury Management	Substantial	February 2017
Governance & Counter Fraud		
Counter Fraud and Ethical Governance	Substantial	November 2016
Contract Procedure Rule Compliance*	Limited	June 2017

Audit Area	Audit Opinion	Committee Date
Service Delivery		
Fees and Charges	Sufficient	June 2016
Staff Development and Training Effectiveness	Sufficient	February 2017
Post Handling Arrangements	Sufficient	September 2016
Disclosure and Barring Service	Sufficient	April 2017
Grounds and Environmental Assets Maintenance	Sufficient	February 2017
CCTV	Sufficient	June 2016
S106 Agreements	Sufficient	March 2017
Housing Options/ Homelessness Strategy	Sufficient	November 2016

*final draft report with management for agreement of action plan.

- 3.4 Outlined in Appendix 1 is a summary of each of these audits that has been finalised during the year. The Committee should note that the majority of these findings have previously been reported as part of the defined cycle of update reports provided to the Governance Committee.

Implementation of Internal Audit Recommendations

- 3.5 Internal Audit follow up on progress made against all recommendations arising from completed assignments to ensure that they have been fully and promptly implemented. Internal Audit trace follow up action and attend the Council's Management Team meeting on a quarterly basis to provide updates on implementation. The Head of Internal Audit provides a summary at each Governance Committee on the progress made and actions outstanding. Details of the implementation rate for audit recommendations made during 2016/17 are provided in Table 4.

Table 4 - Implementation of Audit Recommendations 2016/17:

	Category 'High' recommendations	Category 'Medium' recommendations	Category 'Low' recommendations	Total
Agreed and Implemented	11	29	7	47 (53%)
Agreed and not yet due for implementation	7	15	11	33 (38%)
Agreed and due within last 3 months, but not implemented	1	2	3	6 (7%)
Agreed and due over 3 months ago, but not implemented	0	1	1	2 (2%)
TOTAL	19	47	18	88 (100%)

3.6 There are no further actions overdue from previous years' reports. A summary of all overdue recommendations is provided in Table 5:

Table 5 - Summary of Overdue Recommendations as at 31st March 2017

Audit Title	Year reported	High		Medium		Low	
		Over 3 months	Under 3 months	Over 3 months	Under 3 months	Over 3 months	Under 3 months
Housing Options and Homelessness	2016/17		1				
Grounds & Environmental Asset Maintenance	2016/17				1		
Staff Training & Development	2016/17				1		
Counter Fraud and Ethical Governance Arrangements	2016/17					1	3
Managing Capital Contracts – Leisure Vision	2016/17			1			
Totals		0	1	1	2	1	3

3.7 The level of implementation is reported to the Governance Committee throughout the year.

Internal Audit Contribution

3.8 It is important that Internal Audit demonstrates its value to the organisation. The service provides assurance to management and members via its programme of work and also offers support and advice to assist the Council in new areas of work.

3.9 Delivery of 2016/17 Audit Plan

3.9.1 The Internal Audit team have delivered **100%** of the agreed assignments within the 2016/17 Audit Plan.

3.10 Internal Audit Contribution in Wider Areas

3.10.1 During 2016/17, the Council has actively engaged with Internal Audit to deliver wider benefits and add further value, beyond the assignments commissioned within the

Audit Plan. Key examples of areas where Internal Audit has been able to add further value to the organisation during the financial year are set out within Table 7.

Table 7 – Internal Audit Contribution

Area of Activity	Benefit to the Council
Cyber-crime session held with Senior Management Team, organised by Internal Audit. Local cyber-crime lead from Leicestershire Police attended to alert management to the risks and actions they can take.	Awareness of significant, emerging risk areas. Internal Audit are now working with the Council to develop an action plan and strengthen controls in this area. Also, provides access to good working relationships built between Internal Audit and the local economic crime unit.
Delivering testing on key controls in consultation with External Audit to assist them in forming their opinion on the Annual Accounts and maintaining good working relationships with the external auditors.	Reduce audit burden, saving costs.
Delivery of full fact finding investigation into whistleblowing referral. Based on findings, joint working with police contacts to instigate and progress criminal investigation into alleged fraud. Action taken to seek recovery of monies and recommendations made to strengthen control framework.	Benefit from access to experienced fraud investigator and relationships established with Leicestershire Police Economic Crime Unit. This has enabled an efficient, thorough investigation and ensures that the Council demonstrates a zero tolerance to fraud. Recovery of monies sought.
Lead on re-drafting of Counter Fraud Strategy and Fraud Response Plan based on areas identified in Counter Fraud and Ethical Governance audit.	Sharing of best practice to ensure strategy and procedures are robust and support a strong counter fraud control framework.
Production of an Anti-Money Laundering Policy and Staff Guidance which were adopted by the Council and the subsequent delivery of targeted training to a number of customer facing and finance staff.	Sharing of best practice policies adopted across LGSS sites and raising awareness of staff to be alert to the risk of monies being laundered through the organisation and actions to be taken.
Support on investigation into money laundering referrals and submission to the National Crime Agency to obtain consent to proceed with transactions to resolve incidents.	Demonstrating effectiveness of awareness sessions, above, assisting the Council in dealing with referral made by staff under the new policy and ensuring referrals made to the National Crime Agency as required, to cover the Council from any allegations of involvement in money

Area of Activity	Benefit to the Council
	laundering.
Provision of training to members of the Governance Committee.	The Governance Committee is more effective in its role as an assurance provider.
Delivering staff briefing session on ethical governance and counter fraud policies.	Provide all staff with an understanding of the ethical policies and how declarations should be made. Thereby, embedding a zero tolerance culture to fraud and corruption.
Delivering of additional consultancy work on the Leisure Vision Phase 1 project and subsequent further review on wider capital project management controls.	<p>Independent review of project management arrangements and identification of weaknesses which resulted in the overspend against the project budgets. Reports to Governance Committee and Policy and Finance Committee on the financial impacts, weaknesses in controls and recommendations for improvement.</p> <p>Working with management, this has resulted in a number of actions taken to ensure future projects are suitably managed and controlled and further transparency over progress and risk management.</p>
Ad hoc advice on financial system controls.	To assist in identifying and highlighting potential risks and control weaknesses and strengthen internal controls.
Responding to whistleblowing disclosures, as a key point of contact for whistleblowers.	Providing staff and stakeholders with an independent point of contact to raise any concerns in confidence and ensure these are handled in line with the Council's policy.
Consultancy support on Transformation Programme for Revenues and Benefits.	Independent review and challenge on the delivery of the programme and sharing of good practice and areas for development.

4. Performance Indicators

4.1 Internal Audit maintains several key performance indicators (KPIs) to enable ongoing monitoring by senior management and the Governance Committee. Outturns against these indicators in relation to work delivered for Melton Borough Council are provided in Table 8:

Table 8 – Internal Audit KPIs 2016/17

Indicator description	Target	Actual
Delivery of the agreed annual Internal Audit Plan, to at least draft report stage, by 31 st March 2017	90%	87% Note: Due to delays in officers providing procurement audit evidence
Days spent on delivery of Audit Plan 2016/17	235	221
Customer Feedback – rating on a scale of 1 to 4 (average) Where: 1 = Poor, 2 = Satisfactory, 3 = Good and 4 = Outstanding	3.6	3.32

5. Professional Standards

5.1 The Public Sector Internal Audit Standards (PSIAS) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.

5.2 The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

5.3 A detailed self-assessment against the PSIAS has been completed by the Head of Internal Audit, a copy of which is provided in Appendix 2. The outcome of the assessment was that the activities of the Internal Audit service are in general conformance with the Standards.

Appendix 1: Summary of Internal Audit Work Undertaken for 2016/17

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Financial Systems			
Financial Systems key controls	Sufficient	<p>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 (NNDR) income collection and recovery.</p>	<p>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).</p> <p>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 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.</p> <p>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.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>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.</p>
Fixed Assets	Substantial	<p>To provide assurance over the completeness of the Council's fixed asset records and the verification of these assets.</p>	<p>It is important for the Council to track fixed assets for the purposes of financial accounting, preventative maintenance, and theft deterrence. Accuracy and completeness of the financial information used in the Council's Statement of Accounts relies on the accuracy and timely update of fixed asset records. Internal Audit sought to provide assurance over the completeness of the Council's fixed asset records and the verification of these assets.</p> <p>The Council's fixed asset register is verified and updated on an annual basis to ensure that assets are accurately reflected in the Statement of Accounts. Various policies are in place to govern the management of fixed assets but they do not provide standard protocols for the acquisition, disposals and transfers of assets that are not defined as land and buildings, such as equipment and vehicles. In addition, testing confirmed that clear delegation of authority and a full audit trail for the disposal of these types of assets was not available.</p> <p>Appropriate procedures are in place to approve capital expenditure and identify and record asset additions. Procedures surrounding the valuation of assets were also confirmed to be sound. Testing confirmed that the Fixed Asset Register had been updated based upon the figures received for the 2015/16 valuations and work is already underway to ensure the 2016/17 valuation takes place in a timely manner. Reconciliations between the Fixed Asset Register and the General Ledger take place annually and the 2015/16 reconciliation had been completed fully and accurately.</p> <p>Asset custodians physically verify their assets on an annual basis and for</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>2016/17 a signed declaration has been introduced, whereby custodians must sign to confirm that their assets exist and are accurately recorded on the Fixed Asset Register. All assets within the audit sample were physically verified by Internal Audit and had been accurately recorded on the Fixed Asset Register.</p>
Treasury Management	Substantial	<p>To provide assurance that the Treasury Management function is conducted in line with statutory and regulatory requirements and best practice guidance so that investments are appropriately safeguarded and transactions and records are complete, accurate and timely.</p>	<p>The Council has a professionally qualified and experienced officer operating its daily Treasury Management responsibilities with all proposals subject to appropriate review and approval by senior officers. Responsible officers keep up to date with statutory requirements and best practice through review of professional websites, available training sessions and guidance from the Council's Treasury Management Advisors.</p> <p>The Council has an approved Treasury Management Strategy in place, along with Treasury Management Practices and Procedures which are kept up to date in line with any changes to the strategy. The Treasury Management Strategy is approved each year by Full Council, following scrutiny from the Budget and Strategic Planning Working Group and if required approval is also sought at mid-year reviews for any updates. Members are also kept up to date on the Council's Treasury Management position via quarterly Member bulletins.</p> <p>The approved Strategy outlines the criteria that proposed transactions must meet including time limits and maximum values. Credit rating lists are used to ensure appropriate selection of counterparties for fixed term investments and credit ratings are checked using an online tool for liquid money market fund investments.</p> <p>The Council's bank balance is checked on daily basis to ensure accuracy of cash flow predictions and identify opportunities for investment proposals. Any proposals are subject to an appropriate review and approval and an adequate audit trail is maintained to evidence the transaction details and authorisation.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			Sample testing confirmed procedures were operating as described.
Governance & Counter Fraud			
Counter Fraud & Ethics Arrangements	Substantial	Review of the Council's counter fraud arrangements and compliance with best practice in relation to fraud prevention and detection. To review whistleblowing procedures and effectiveness of the whistleblowing policy.	<p>Melton Borough Council has acknowledged the risk of fraud and corruption and has clearly stated its zero tolerance approach. A suite of counter fraud and corruption policies has been adopted and made available to staff, alongside a comprehensive Fraud Strategy and Response Plan which cover many key areas recommended as best practice. Feedback from staff highlighted potential scope to provide a clear, consistent platform for accessing these various key counter fraud and ethical policies. It was also recommended that requirements for disclosing gifts and hospitality and private interests be further clarified and added to the staff induction process.</p> <p>Regular staff briefings are delivered to pro-actively raise awareness and embed the Council's ethical governance and fraud policies. Staff feedback received during the audit demonstrated that these have proven to be very effective. In relation to whistleblowing arrangements, staff feedback was largely positive, demonstrating strong awareness of the policy. It was also highlighted that 75% of respondents said they felt 'confident' in using the policy to report suspected fraud or corruption. Procedures are operating effectively to ensure that whistleblowing disclosures are logged and monitored.</p> <p>In accordance with good practice, fraud risk assessments have been conducted by the Council's senior management team in recent years. The management team promptly respond to alerts and trends and are actively engaging in opportunities to assess emerging and growing fraud risks such as cyber crime. A review of the fraud policies highlighted some opportunities to add further detail to the Fraud Response Plan to ensure full compliance with good investigative practice and to consider whether all actions originally set in the Strategy continue to focus on key risks.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Contract Procedure Rules Compliance	Limited	To review the design of the Council's Contract Procedure Rules and provide assurance over compliance with these rules. To review a sample of procurements for evidence.	<p>The Council's contract procedure rules are primarily designed to ensure probity and value for money when procuring goods, works or services that meet the needs of local residents and comply with legal and regulatory requirements in respect of competition and transparency. There had been recent examples where aspects of the rules and guidance had not been complied with in practice. Assurance was, therefore, sought that the current rules and guidance are fit for purpose and that the recent cases on non-compliance were isolated cases rather than indicative of wider weaknesses in the governance and control framework.</p> <p>Based on Internal Audit review, the Council's contract procedure rules are consistent with regulatory requirements and contain all expected key controls to mitigate the risk of fraud and poor value for money. The rules are supplemented by a procurement toolkit that provides additional support, guidance and templates to assist staff involved in the procurement process. However, there is scope to improve staff awareness and understanding of the procedures through regular training and awareness campaigns.</p> <p>Detailed testing of a sample of contracts confirmed that the correct procurement route had been followed in each case, although it was identified that advice had not been consistently sought for higher value contracts which could increase the risk of non-compliance with EU procedures. Sample testing identified weaknesses in the recording and evidencing of compliance with several aspects of the Council's approved procedures. Failure to clearly document compliance means there is an increased exposure to the risks and challenge of fraud, corruption and poor value for money. In one case, there were inconsistencies in the way that tenders were evaluated and a lack of evidence to demonstrate that this matched the pre-determined criteria. Consequently, it is not possible to conclude that there have been no irregularities in the award of all contracts in the sample. Action is required to</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			strengthen existing arrangements for recording procurement processes and development of more proactive monitoring of compliance by senior managers.
Service Delivery & Best Value			
Fees & Charges	Sufficient	<p>To provide assurance that fees and charges made by the Council are appropriate and subject to regular review.</p> <p>To review whether statutory fees are in accordance with specified values and whether discretionary fees are set on a fair, transparent basis which ensures cost recovery.</p> <p>To specifically include Taxi Licencing fees.</p>	<p>Fees and charges are a significant source of income for the Council and are becoming increasingly important as central government funding diminishes and the need for self-sufficiency increases. Based on 2014/15 figures, income of approximately £1.9 million is generated from General Fund charges and £0.6 million from charges in the Housing Revenue Account. The Council has over 350 individual charges ranging from 30p for access to public conveniences to £64,000 for licensing of large scale public events. As well as generating significant income, effective charging policies can also support broader policy objectives such as targeting of subsidies and managing demand for services.</p> <p>The Council's overall governance arrangements for managing fees and charges were assessed as sound. There is a clear and comprehensive corporate charging policy and effective arrangements in place to ensure all charges are reviewed and approved annually. However, application of the policy at service level was not always clearly evidenced or fully documented. In particular, some fees set on a cost recovery basis were established several years ago and increased by inflation in subsequent years. Consequently, it was not always possible to clearly demonstrate whether costs continue to be fully and suitably recovered. In addition, whilst most budget holders interviewed by Internal Audit stated that market intelligence was used to inform pricing decisions, this process was largely informal.</p> <p>Testing of statutory charges confirmed that all had been established in accordance with the relevant statutory or regulatory requirements.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Staff Development & Training effectiveness	Sufficient	To provide assurance over the effective use of training budgets for staff and how these support the Council's performance development appraisal process.	<p>In July 2016 the Council created a training and development plan to develop the capacity, capability and innovation of staff as part of Melton's Extending to Excellence programme (ME2E). This is being rolled out across the Council during 2016/17 and 2017/18. Internal Audit sought assurance that the Council has controls in place to identify the training and development needs of staff and is also achieving value for money when procuring from training providers. Internal Audit has also provided consultancy support on the effectiveness of the Council's training plan.</p> <p>The Council has established a well-designed employee appraisal process that ensures employees review their performance against the Council's priorities and values as well as identifying individual training and development needs through the production of a Personal Development Plan (PDP). Compliance with this process, however, required improvement. Evidence showed that for some staff appraisals were not carried out regularly, and in some cases not at all, and a significant proportion of employees had not completed mandatory training courses.</p> <p>Efficiencies could also be made by setting an agreed time period for conducting appraisals so that training and development needs can be identified, prioritised and used to inform a corporate training plan or catalogue. This could include ME2E development opportunities as well as both mandatory and discretionary training.</p> <p>Due to the absence of a dedicated learning and development post within the Council, responsibility for training and development falls to line managers. The introduction of a Training and Development Policy would formalise line manager responsibilities and ensure that performance can be measured.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>The training budget for 2016/17 was set as £75,060. At the time of the audit, practice required training opportunities to be reviewed and approved by the HR and Communications Manager to ensure value for money was being achieved. This process, however, had not been formalised and audit testing highlighted instances of non-compliance.</p>
Post Handling Arrangements	Sufficient	To provide assurance over security arrangements and audit trails for post receipting and collection.	<p>Internal Audit reviewed the security arrangements and audit trails for the receipting, sorting and collection of incoming post (packages, parcels, and mail) at the Melton Borough Council's Parkside offices to ensure that post is handled in a secure and sensitive manner within a protected and controlled environment.</p> <p>Two visits to the post room were conducted by Internal Audit (one unannounced and one planned) and testing highlighted some processes and controls which could be strengthened further in relation to access to the post room and audit trails for the handling of large items, such as parcels and packages.</p> <p>The Council was potentially at risk of unauthorised access to the post room because it was not restricted whilst the post was being opened and sorted and any person with a Parkside swipe card had the ability to enter the post room.</p> <p>Procedures for handling parcels and packages had not been formally agreed and documented and records to confirm details of all parcel/package deliveries were not maintained which could lead to difficulties in tracing and locating items should a dispute occur.</p> <p>Internal Audit observed the opening and sorting of post being carried out in accordance with Council procedures and unidentified recipients were dealt with in an appropriate and consistent manner.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
Disclosure & Barring Service	Sufficient	To provide assurance that appropriate use is being made of the disclosure and Barring service for relevant posts and the issuing of Taxi/Private hire licences.	<p>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.</p> <p>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 (it should be noted that comparable roles at other authorities are not subject to a DBS check and Internal Audit do not consider these roles to meet the requirements to justify 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.</p> <p>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. This was due to a change in the frequency of renewals but this is not consistent with Council policy and</p>

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			<p>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.</p> <p>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.</p>
Grounds & Environmental Asset Maintenance	Sufficient	To provide assurance over the maintenance/ renewal programme for environmental assets.	<p>Effective maintenance of grounds and environmental assets links directly to the Council's corporate priority to deliver well respected, value for money customer focused services. The service is delivered by an in-house team of staff operating from the Snow Hill depot. Some specialist services are contracted out, but the majority of work is carried out by the Council's own workforce at an estimated gross cost of around £450k per annum. The service was last audited in 2012/13 and was given a 'marginal' assurance opinion.</p> <p>Based on interviews, current service standards were considered to be of a high quality and customer complaints were rare. However, the lack of a unified service specification and comprehensive service standards makes it difficult to demonstrate that current service levels are consistent with the Council's expectations and strike the right balance between quality and cost. It was</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>recommended that the development of a more formal service specification and associated performance monitoring arrangements would provide a more robust and evidence based framework for effective strategic management of the service.</p> <p>Management at an operational level is considered effective but relatively informal. Quality control is exercised through routine line management arrangements and informal ad-hoc inspections, but there are no service specific performance indicators. The management of operational vehicles, machinery and equipment is similarly informal and testing identified errors and omissions in the inventory.</p> <p>A history of over-spending in recent years has led to closer monitoring and management scrutiny in 2016/17 and overall spending remained within budget at the time of the audit. There is a five year capital renewals plan for all vehicles, major items of machinery and play equipment, although these need to be brought up to date and consistent with the inventory. There are clear controls to ensure that spending is not committed prior to approval of a suitable business case. Testing identified one example of non-compliance, although management were satisfied that this was an isolated case and has taken appropriate action.</p>
CCTV	Sufficient	To provide assurance over the management of the CCTV systems to ensure legal requirements, policies and standards are complied with in practice.	<p>The 'Melton Mowbray Town Centre CCTV System' has evolved from the formation of a partnership between Melton Borough Council and Leicestershire Police. It comprises of 16 cameras and body worn video (BWV) units, which were introduced in 2014 to enhance the existing static system.</p> <p>The Council's surveillance system is used to monitor and record the activities of individuals. As such, the Council is processing individuals' personal information and this activity is therefore subject to the Data Protection Act (DPA) 1998.</p>

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
			<p>Internal Audit reviewed controls over the security, access, retention and disposal of recorded material to ensure it was compliant with the DPA and found that whilst a number of controls were in place, there were some areas where these could be strengthened further. Access to the CCTV monitoring room, for example, was not fully restricted and whilst visitors to the room were required to sign in and out of a visitors' log, during fieldwork it was identified that this was not consistently completed by all individuals accessing the room. Usernames and passwords were required for accessing the surveillance systems but this control could be strengthened further by ensuring passwords are changed on a regular basis and stored more securely.</p> <p>The retention and disposal of recorded material for police evidence was sufficiently controlled and evidenced through the use of a Digital Evidence Log. Nevertheless it was highlighted that the audit trail for video still images could be developed further by documenting the retention period and destruction date.</p> <p>A comprehensive set of procedure manuals and a Code of Practice had been designed to govern and control the Council's surveillance systems. Operators are required to sign a Declaration of Compliance and weekly audit checks are performed by the CCTV Co-ordinator to ensure procedures are being followed.</p> <p>The Council has been transparent in the use of CCTV cameras by publishing their locations on the website and providing the public with details on how to view their personal information should they wish to do so.</p>
S106 Agreements	Sufficient	To provide assurance over the processes and controls in place for the management of s.106 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

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		<p>including collection of income, monitoring of expenditure within timeframes and ensuring all agreements are detailed accurately and in full in a central record.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
Housing Options/Homelessness Strategy	Sufficient	To provide assurance that there are adequate processes and controls in place to ensure that housing and homelessness applications are treated in accordance with established local	The proper and effective operation of housing allocations and homelessness applications supports the Council's corporate priority of helping to provide homes and environments that meet local needs. To achieve this, the Council operates in partnership with other Leicestershire districts and has adopted a sub-regional Choice Based Lettings Scheme.

Audit Assignment	Assurance Rating	Area Reviewed	Basis for Assurance Opinion
		policies and national legislation.	<p>There is a clear and comprehensive lettings policy and robust procedures for processing housing applications. Staff in the Housing Options Team are highly experienced and have a good understanding of operational systems and procedures, although the small size of the team means there is limited capacity to deal with peaks in workload or periods of staff absence. As such, at the time of audit there was a significant backlog of housing applications that were overdue for review.</p> <p>Testing found that the assessment of applications and property allocation processes were operating in compliance with the approved policy but there were opportunities to improve the quality and completeness of evidence and records supporting eligibility and banding decisions.</p> <p>Homelessness costs are increasing and the Council's homelessness strategy and action plan were out-of-date. Given the rising costs and significant budget overspends reported for the service in recent years, it was recommended that this strategy be reviewed as soon as possible. Procedures for processing homelessness applications were clear and effective but again testing highlighted that the quality and completeness of supporting documentation could be improved.</p> <p>There are sound arrangements in place for applicants to appeal housing and homelessness decisions but Internal Audit testing of compliance was limited due to an inability to identify cases that have been subject to appeal.</p>

Appendix 2: Self-Assessment against the Public Sector Internal Audit Standards (PSIAS)

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
1000 – Purpose, Authority & Responsibility	1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	✓			The Internal Audit Charter reflects the mandatory nature of the relevant Standards. The revised Internal Audit Charter for 2017/18 to be presented to the Governance Committee for approval in June 2017 and to cover all definitions and requirements of the 2017 PSIAS.
1100 – Independence and Objectivity	1100	Organisational Independence	✓			Head of Internal Audit reports directly to the Audit Committee and has unfettered access to the Chief Executive, Chair of the Governance Committee and Section 151 Officer. The internal audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results.
	1111	Direct Interaction with the Board	✓			Head of Internal Audit reports directly to the Governance Committee.
	1112	Chief Audit Executive Roles beyond Internal Auditing	✓			Head of Internal Audit holds no additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities.
	1120	Individual Objectivity	✓			All members of the Internal Audit team are required to complete a Declaration of Interest form at the start of the financial year and any conflicts of interest are avoided in work allocations.
	1130	Impairment to Independence or Objectivity	✓			Approval sought from Audit Committees before undertaking any significant consulting services not already included in Audit Plans or which may present any impairment of objectivity.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
1200 – Proficiency and Professional Care	1210	Proficiency	✓			<p>Head of Internal Audit is CCAB qualified and all Audit Managers hold professional qualifications and are suitably experienced for the role. Trainees and Auditors are undertaking IIA and AAT training. Training and development plans being revised in 2017 to support continuous training and development for team.</p> <p>Action – staff training and development plans to be updated/developed under LGSS framework.</p>
	1220	Due Professional Care	✓			Experienced Audit staff exercise due professional care when planning and undertaking assignments. Scope of assignment is clarified within detailed audit planning record and the limitations to the scope and assurance provided are documented within audit planning records, audit reports and progress reports. All audit planning records are approved by the Head of Internal Audit before work commences.
	1230	Continuing Professional Development	✓			Staff attendance at training and development opportunities. All Audit Managers must satisfy professional body CPD requirements.
1300 – Quality Assurance & Improvement Programme	1310	Requirements of the Quality Assurance and Improvement Programme	✓			Annual internal self-assessment conducted by Head of Internal Audit, which is included in the Annual Report. External assessment in 2013 resulted in action plan which has been delivered. LGSS subject to external assessment in 2017.
	1311	Internal Assessments	✓			Ongoing monitoring of performance at monthly individual supervision meetings, team meetings and post audit completion discussions. Customer Satisfaction Questionnaires (CSQs) requested from clients for each assignment and responses summarised for Audit Committees. Head of Internal Audit meets with senior

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						management on regular basis and seeks feedback on value of the Internal Audit service and areas for development.
	1312	External Assessments	✓			External assessment conducted in 2013 by independent, professional company to assess against compliance with PSIAS. LGSS subject to external assessment in 2017.
	1320	Reporting on Quality Assurance and Improvement Programme	✓			The outcome of the external assessment and progress against the resulting improvement plan were reported to the Audit Committee. All actions from the improvement plan were signed off by the Welland Board. Annual self-assessment against PSIAS included within Head of Internal Audit's Annual Report.
	1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of improvement plan and ongoing assessment and quality assurance processes, results support compliance with Standards and Code of Ethics.
	1322	Disclosure of Non-conformance	✓			Instances of non-conformance identified in 2013 were reported to the Board and Committees following the external assessment. Progress against the improvement plan to address all areas of non-conformance was reported to Committees and management until all actions were signed off.
2000 – Managing the Internal Audit Activity	2010	Planning	✓			Process for development of risk based audit plans was presented to each Audit Committee for approval. Plans were developed with input from senior management and Committee members. Audit

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						planning process is documented in Internal Audit Charter.
	2020	Communication and Approval	✓			Any changes to the approved Audit Plans during the financial year are communicated to the Audit Committee and subject to agreed approval mechanisms in accordance with the delegated decision making arrangements.
	2030	Resource Management	✓			Resources reviewed on an ongoing basis to ensure these are appropriate, sufficient and effectively deployed and now benefits from being part of larger LGSS service. Team includes professionally qualified, experienced Audit Mangers. Any concerns on adverse impact on provision of the audit opinion would be raised by the Head of Internal Audit in Annual Report.
	2040	Policies and Procedures	✓			Audit manual, charter and practice notes revised as part of improvement plan to ensure compliance with Standards.
	2050	Coordination	✓			Other sources of assurance are considered and reviewed as part of the Audit Planning process to avoid any duplication with other assurance providers.
	2060	Reporting to Senior Management and the Board	✓			The Head of Internal Audit attends meetings with senior management and Audit Committees on a regular basis. Progress reports are presented at every Audit Committee meeting and details of assurance levels are provided with focus upon those of Limited Assurance opinions. The content of the progress reports was reviewed during 2015 and

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						the Governance Committee now receives a detailed breakdown of the implementation of audit actions and full details of all actions which have been overdue for more than three months and classed as 'high' or 'medium' priority. The Committee also now receives the Executive Summary of all finalised audit reports and has access to all audit reports for any Limited Assurance opinions given, which are provided as hard copies in the Members' room.
	2070	External Service Provider and Organisational Responsibility for Internal Auditing	✓			The Council's Constitution clearly acknowledges the Council's responsibility for maintaining effective internal audit activity.
2100 – Nature of Work	2110	Governance	✓			<p>Audit team provides independent advice on drafting of governance related policies and attends governance groups, where applicable. Audit findings on risks and controls are presented to the Audit Committee and senior management with recommendations on areas for improvement.</p> <p>As appropriate, the Internal Audit team contributes to the development of the Annual Governance Statement.</p> <p>IT Governance reviews included in rolling IT Audit plan.</p>
	2120	Risk Management	✓			<p>Internal Audit refer to the organisation's risk registers during Annual Planning exercises and provide training to committee members on risk management and the 'three lines of defence' to support effective review.</p> <p>Risks relating to the organisation's governance, operations and</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>information systems, as well as fraud risks, form part of individual audit assignments, as stated in the audit planning records and audit reports.</p> <p>The Internal Audit planning process for 2017/18 included review of risk management systems and procedures and as stated in the PSIAS 'Internal Audit gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness'. As such, the outcome of the various risk based assignments within the Audit Plans provide an understanding of the effectiveness of the Council's risk management procedures which can be raised with senior management and the Committee.</p> <p>Auditors are alert to other significant risks when undertaking any consulting engagements and give advice and make recommendations but it is the responsibility of management to implement these actions.</p>
	2130	Control	✓			In accordance with the risk based approach to Internal Audit assignments, the adequacy and effectiveness of controls are evaluated and reported upon on each audit assignment. The audit report template clearly provides an assurance rating for both design and compliance for each control.
2200 – Engagement Planning	2201	Planning Considerations	✓			An audit planning record is issued and subject to formal approval for all audits. This outlines the scope, objectives, timescales, resource

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						<p>allocations, access requirements and limitations to scope for the assignment. This is reviewed and approved by the Head of Internal Audit before issuing to the client.</p> <p>Any consultancy engagement is also subject to documented, agreed scope, objectives and respective responsibilities of the auditor and the client.</p>
	2210	Engagement Objectives	✓			Audit planning records are agreed for each engagement following preliminary discussions on risks with the audit clients and with input and review from Head of Internal Audit. Value for money considerations are included in the scope of each assignment.
	2220	Engagement Scope	✓			Detailed audit planning records are provided for all assignments establish the objectives, resources and access to systems, records, personnel and premises, as appropriate.
	2230	Engagement Resource Allocation	✓			Audit planning records state the number of audit days allocated to the assignment and the Audit Manager should agree a scope which is achievable within the resource available. The Head of Internal Audit reviews and approves all audit planning records before issuing to clients to ensure scope is appropriate and consistent with resource allocation.
2300 – Performing the Engagement	2310	Identifying Information	✓			Audit Managers ensure that sufficient, reliable and relevant information is used for audit assignments. File reviews conducted by Head of Internal Audit to confirm quality of evidence and basis for conclusions.

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
	2320	Analysis and Evaluation	✓			<p>Reviews of electronic working papers conducted by Head of Internal Audit to confirm quality of evidence and basis for conclusions.</p> <p>Clearance meetings held with clients to discuss findings and basis for conclusions and provide opportunity to confirm accuracy of findings.</p>
	2330	Documenting Information	✓			<p>Retention of evidence to support conclusions and engagement results is saved on the audit software and network folders, where access is limited to Audit staff. Any hard copy evidence is scanned onto the network and software and destroyed via confidential waste.</p> <p>Practice note states 'Rutland County Council is the Consortium's employing body and the Consortium operates in line with the Council's Document Retention Policy'.</p>
	2340	Engagement Supervision	✓			<p>Monthly supervision meetings held with each member of Audit team to discuss progress made with each assignment, any issues encountered, workload and priorities for the month ahead.</p> <p>All audit reports are reviewed by the Head of Internal Audit and evidence is retained on file. All working papers are reviewed by the Head of Internal Audit (unless completed by an Auditor and fully reviewed by Audit Manager). Evidence of the review is held on the audit software with full audit trail.</p>
2400 – Communicating Results	2410	Criteria for Communicating	✓			<p>Internal Audit reports state the objectives, scope, conclusions, recommendations and agreed action plans.</p>

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
	2420	Quality of Communications	✓			Head of Internal Audit review of reports ensures these are accurate, objective, clear, concise, constructive, complete and timely.
	2421	Errors and Omissions	✓			No incidents recalled of any significant errors or omissions in reports. Any such incidents would be suitably escalated for resolution.
	2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			Based upon completion of the improvement plan arising from the external assessment and the internal self-assessment, results support this statement.
	2431	Engagement Disclosure of Non-conformance	✓			Not applicable.
	2440	Disseminating Results	✓			<p>The final reports issued on all assignments are provided to all individuals named on the circulation list, approved at the commencement of the audit. Any circulation to parties in addition to those listed on the audit planning record will be agreed with the Head of Internal Audit and senior management.</p> <p>Copies of final audit reports are available to committee members by requesting from the Head of Internal Audit or s151 Officer.</p> <p>The progress reports presented at each committee meeting include the outcome of each assignment, in relation to the assurance rating and the key matters arising.</p>
	2450	Overall Opinions	✓			The Head of Internal Audit provides an annual Internal Audit opinion which should inform the Council's governance statement. This

Standard	Ref	Conformance with Standard	Yes	Partial	No	Evidence
						report includes an opinion, a summary of work that supports that opinion and a statement on conformance with PSIAS.
	2500	Monitoring Progress	✓			<p>There is an established process in place at each of the councils within the Consortium for the follow-up of progress made by management in implementing the agreed actions.</p> <p>Internal Audit monitor and report to the Committee on the progress made. The content of the progress reports was reviewed during 2015 and the Audit & Risk Committee now receives a detailed breakdown of the implementation of audit actions and full details of all actions which have been overdue for more than three months and classed as 'high' or 'medium' priority.</p> <p>The Committee also now receives the full Executive Summary of all audit reports finalised during the period.</p>
	2600	Communicating the Acceptance of Risks	✓			<p>Where an identified risk is accepted by management this is reflected in the audit report. Where the risk is subsequently accepted because the agreed action is no longer feasible this would be discussed with senior management and details and context would be reported to the Committee.</p> <p>If the Head of Internal Audit had concerns about the level of risk accepted by management this would be reported to the Committee.</p>

Conclusion:

Based upon the self-assessment completed by the Head of Internal Audit in April 2017, the Internal Audit service is generally operating in conformance with the Standards. The following actions have been identified to support continuous improvement of the service:

- To review and revise the training and development plans for staff, adopting the LGSS template. This will ensure consistency across the LGSS team and provide wider development opportunities and support to trainees.
- To present updated Internal Audit Charter to Governance Committee for formal annual approval in June 2017.