

Melton Borough Council  
Internal Audit Progress Report  
January 2023



## ***Introduction***

- 1.1 The delegated internal audit service for Melton Borough Council has been commissioned to provide 235 audit days to deliver the 2022/23 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 2022/23 be delivered?**

Internal Audit is set the objective of delivering at least 90% of the Internal Audit plan to draft report stage by the end of March 2023.

At the time of reporting, 79% of the Audit Plan is either completed or has fieldwork in progress. All audits for the year have been allocated to an auditor.

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 4.

### **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 meeting of the Audit and Standards Committee, the following audits have been finalised:

## **Business continuity management**

Effective business continuity is an essential component of the Council's overall governance arrangements to ensure the resilience of critical services in the event of a major incident. The Council has recognised business continuity as a corporate risk and the mitigation for this risk is reliant upon robust plans and testing of these. As such, the scope of the audit was to seek assurance that those plans are readily available, fit for purpose (in relation to content and being informed by impact analysis) and subject to regular review and testing.

The Council undertakes service impact analysis as part of the Service Area Business Continuity Plan development. These Plans are collated and inform the Corporate Business Continuity Plan, which is designed to guide the Senior Leadership Team (SLT) with early decisions and response to an incident which disrupts the Council's operating capabilities. The documents contain guidance on when to apply the Business Continuity Plans, a business continuity response checklist, scenario specific business continuity response strategies, plus a listing of critical services.

Assurance has been provided that business continuity documents are clear, include key information on activation/communication and detail key roles and responsibilities. Internal Audit testing was conducted on a sample of Service Area Business Continuity Plans, which confirmed that the majority were in place and complete, with some exceptions noted. It was found that three Service Area Business Continuity Plans were not held centrally, with two of these since obtained by the auditor from service leads, and a further four were not fully complete – all of these services had been identified as 'business critical' services. The Strategic Lead for Business Continuity is acting to rectify these issues.

A corporate review of the Council's business continuity arrangements took place in March 2022, with strategic documentation updated and the engagement of a Strategic Lead for Business Continuity in April 2022. All Business Continuity Plans are re-visited annually to ensure information remains up to date. During the Covid-19 Pandemic major incident in March 2020, the Council's business continuity arrangements have been tested. Future periodic exercising and desktop testing of the Council's business continuity arrangements should be applied, with the capturing of lessons learnt.

It was also noted that copies of contractors' business continuity plans for key contracts were not held, in sample testing, as part of business continuity documentation. Whilst contractual requirements for the supplier to provide a plan were confirmed, copies were not held by officers at the time of 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>	Satisfactory	●
<b>Compliance</b>	Satisfactory	●
<b>Organisational impact</b>	Moderate	●

## Management of the Housing Revenue Account (HRA)

The Housing Revenue Account (HRA) provides for the management and maintenance of council-owned dwellings. Its operation is governed by the Local Government and Housing Act 1989 which includes a requirement to maintain a ring-fenced landlord account (the HRA) and to produce and publish an annual budget which avoids a deficit. The Council manages approximately 1,800 homes within its HRA with an annual gross expenditure of £8 million. The 2022/23 Internal Audit Plan included this audit to provide assurance that effective controls are in place to ensure compliance with the financial ring-fence requirements as well as overall strategic management of landlord services, including preparation and delivery of the HRA business plan and management of associated risks.

Based on the audit findings, sound controls are in place to mitigate the risk of non-compliance with the HRA financial ring-fence. Support service recharges are subject to a significant degree of professional judgement and officers should be prepared to provide the necessary evidence and justification for these charges if challenged. In addition, further work is required to justify the HRA element of case management costs and there are a small number of HRA assets that require review, although a project has already been established to address this. There remains a risk that effective financial controls could be adversely affected in the event of the unexpected absence of experienced staff in key roles, which will be difficult to fully mitigate at an authority the size of Melton. However, steps are being taken to address this through effective team working and the development of appropriate policies, procedures and training.

Overall strategic management of the HRA is sound. After a significant period of instability caused by considerable staff turnover and interim senior appointments, there is now a strong and committed housing leadership team in place. Considerable progress has been made over the past 18 months to develop a robust, data driven strategic framework, systems and governance arrangements to steer the service towards delivery of the improvements necessary to meet the Council's objective of providing high quality homes and landlord services. There remains much to be done, but with a reasonable period of stability and a continued focus on development and delivery of the associated plans and projects, it is Internal Audit's view that there is substantial assurance that the HRA is being effectively managed at this time.

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>	Substantial	●
<b>Compliance</b>	Substantial	●
<b>Organisational impact</b>	Minor	●

## **Project Management – Health & Leisure Wellbeing Centre (Phase 2)**

The Council commissioned a review of leisure facility provision in Melton in 2018, which concluded that existing provision required significant upgrade and investment. The Council successfully bid for £100,000 revenue grant money from the Leicester and Leicestershire Economic Partnership (LLEP) to appraise options and develop a detailed business case for the provision of a leisure and well-being hub in Melton. In April 2020, the Council agreed to match this with £50,000 of its own funding and £50,000 of 'officer time' in accordance with the grant conditions.

Following a delay in the project's progression caused by the Covid-19 pandemic, a Project Charter was prepared in September 2021 covering phase 2 of the project, the aim of which is to deliver a fully costed, designed and deliverable proposal to the level of an outline planning application. The Project Charter sets out the governance arrangements for the project and how its management will be documented. The Council engaged FMG Consulting to deliver the project.

The scope of the audit was to provide assurance on the management of Phase 2 of the Health and Leisure Wellbeing Centre (HLWC) project, evaluating the extent to which the Council's project management methodology has been applied as appropriate. The audit also sought to confirm that there is evidence that the Council has complied with the terms and conditions of the grant received from the LLEP.

In overall terms, the audit confirmed that the Council has implemented appropriate project management arrangements in respect of Phase 2 of the HLWC project. The Project Charter was completed to a high standard and there is evidence available of key controls operating such as maintenance of a project Risk Register, delivery of operational tasks through a Project Team, monitoring of the project's interdependencies and Senior Management reviewing progress of the project's delivery.

Resourcing a Project Support Officer role for this project, which has been delivered by an experienced project management professional on a contractual basis, has been central to the successful delivery of the project to date. As such, it is a demonstration of the positive impact that the allocation of resources to project support can have. Nevertheless, the overall issue of ensuring that the project's management is appropriately resourced remains a risk that the Council will need to manage. This is partly due to a reduction in the amount of time that the current Project Support Officer has available for the role (the contract moving from two days to one day a week, with some support also being provided within this time to another project) and also competing demands on the Regeneration Manager's (RM) availability. This latter issue has already had some impact on the project as the RM has recently been involved in the Council's distribution of its allocations from the Levelling Up Fund and the UK Shared Prosperity Fund. This was a factor in monthly Project Team meetings becoming more irregular, with no meetings being held in June, July, September or October 2022. The Council has recently recruited a permanent member of staff to provide support to several projects. The extent to which this officer will be able to support the HLWC project as it moves into Phase 3 will need to be monitored.

Phase 2 was originally planned to be delivered by December 2022, but the timescale has slipped into the Spring of 2023 as complex funding options are explored for the construction of a Centre which could cost between £31m and £38.5m to build (depending on which option is selected). Revised milestone target dates need to be established, which should be actively monitored against so that, if necessary, corrective action can be identified to minimise further slippage.

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>	Good	●
<b>Organisational impact</b>	Minor	●

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

Since the last Audit and Standards Committee meeting, 4 audit recommendations have been completed.

At the date of reporting, there are 19 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 2. There are three actions which were assessed as 'High' priority and have been overdue for more than three months – full details are provided in Appendix 3.

## 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	-	●									Q4 testing
Cyber security	20	1.5			●							
Key corporate controls & policies												
Key financial controls	15	-	●									Q4 testing
Fixed assets	10	10						●	Good	Good	Minor	Reported in November 2022
Special expenses	12	12						●	Good	Good	Minor	Reported in November 2022
Information governance	15	1.5			●							Postponed to Q4
Business continuity management	12	-						●	Satisfactory	Satisfactory	Moderate	See section 2.5
Growth and Regeneration – risk based audit coverage												
Climate change strategy	12	-		●								

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Licensing	12	14						●	Limited	Satisfactory	Moderate	Reported in November 2022
Health & Leisure Project	12	12						●	Substantial	Good	Minor	See section 2.5
Housing and Communities – risk based audit coverage												
Housing repairs contract	-	11						●	Satisfactory	Satisfactory	Moderate	Reported in November 2022
Management of the Housing Revenue Account	12	12						●	Substantial	Substantial	Minor	See section 2.5
Right to Buy	10	3			●							Management request - delay to Q3/4
Landlord health and safety	10	10						●	Substantial	Good	Minor	Reported in November 2022




Assignment	Budget	Actual	Comments
Other Client Support			
Covid related grants / counter fraud support	-	5	
Contingency	10	10	
Advice & Assistance	3	2	
Committee Work, Support & Annual Report	15	9	



Assignment	Budget	Actual	Comments
Other Client Support			
Recommendation Follow-Up	3	2.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	10	
Internal Audit Management & Development	21	15	




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: 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 <b>implemented</b> since last Committee meeting	1	25%	1	12%	2	20%	4	<b>17%</b>
Actions due within last 3 months, but <b><u>not implemented</u></b>	-		-	-	2	20%	2	<b>9%</b>
Actions due <b><u>between 3 and 6 months</u></b> ago, but <b><u>not implemented</u></b>	-	-	4	44%	1	10%	5	<b>22%</b>
Actions due <b><u>over 6 months</u></b> ago, but <b><u>not implemented</u></b>	3	75%	4	44%	5	50%	12	<b>52%</b>
Totals	4	100%	9	100%	10	100%	23	100%

### Appendix 3: '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	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>November 2022 - Review has concluded and there is continued focus on the future and delivery of the IHMS service - including leadership, resourcing, safeguarding, resident engagement, digital switchover for assistive technology, service charge arrangements and future roles and responsibilities. The directorate risk register includes IHMS as a specific area of the landlord services that requires review but recognises that progress is being made. A personal visit to every IHMS property / tenant is underway, with feedback from visits being discussed by a project team and overseen by the assistant director for housing management.</p> <p>Other influencing factors for reviewing the original audit recommendations are the regulatory changes for the housing sector, digital switchover and</p>	Director of Housing & Communities	30/11/2019	TBA

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
			<p>potential changes to external partners commissioning arrangements.</p> <p>The importance of defining future housing support arrangements are set out within the recently approved HRA business plan. Relevant recommendation reads: "To progress a review of support available to tenants, including options regarding support and assistive technology to increase independence in the future"</p> <p>It is considered that a follow up discussion with audit colleagues would be advantageous at this stage to provide assurance of progress and to consider updating the original recommendation.</p> <p>Officers would be happy to attend a future audit and standards committee to provide a detailed position update and assurance on the work that has taken place to date, changing context within which the service is delivered and</p>			

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
			the associated action plan and changes that are in development.			
Housing repairs 2020/21	Housing & Communities	Develop a formal timetable for implementation of the BARRIS interface to enable Council staff to schedule and manage customer appointments directly and to support effective monitoring and management of works in progress, variations and completions.	November 2022 – The first part of the interface has been tested and is working. Axis have questioned the effectiveness of going live with only part of the interface. We are discussing a timetable for the full interface to be ready to agree a single go live date. .	Director of Housing & Communities	31/12/2021	TBA
Housing repairs 2020/21	Housing & Communities	Arrangements for the management and approval of variations should be reviewed and strengthened. All exclusions, over-threshold works and other variations should be approved prior to completion of the works and variation requests should be fully itemised and priced based on the discounted schedule of rates. Once the process has been in place a sufficient length of time and the Council is satisfied that it is working effectively it may wish to consider formalising an agreed 'tolerance' level below which	November 2022 – The first part of the interface has been tested and is working. Axis have questioned the effectiveness of going live with only part of the interface. We are discussing a timetable for the full interface to be ready to agree a single go live date. .	Director of Housing & Communities	31/12/2021	TBA

Audit Title and Year	Service Area	Issue / Outstanding Action	Latest update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
		variations will be accepted without the need for prior approval - to maximise operational efficiency.				

## Appendix 4: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire 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 8 responses received during 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	-	2	5	1	-
Communication during Assignments	-	2	6	-	-
Quality of Reporting	-	2	5	1	-
Quality of Recommendations	-	1	6	1	-
<b>Total</b>	-	<b>7</b>	<b>22</b>	<b>3</b>	-



## **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.