

Melton Borough Council
Internal Audit Progress Report
March 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, 100% of the Audit Plan is either completed or has fieldwork in progress. All audits for the year have been allocated to an auditor and the 90% delivery will be achieved by the end of March 2023.

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 95% 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 audit has been finalised:

Right to buy

The Right to Buy scheme came into force in 1980 and is governed by the Housing Act 1985. The scheme helps eligible council and housing association tenants in England to buy their council home at a discounted rate. Given the value of social housing both in terms of money and the provision of a home for someone in need, it is important that local authorities take steps to protect themselves from the minority of right to buy applications which are fraudulent and that applications are processed accurately, in accordance with the legislation. A total of 34 applications have been recorded since January 2022.

In April 2019, an audit took place to review the controls used to identify fraudulent right to buy applications and to advise on internal processes and procedures requiring development, with overall limited assurance. Since then, there has been ongoing improvements to the internal processes with the implementation of suites of template documents and letters now used by officers. However, in 2022, there were four cases whereby the incorrect purchase price was issued, resulting in financial loss to the Council. The objective of the audit was to seek assurance that, since these incidents, updated processes and procedures are now consistent with current legislative requirements, with a sound framework for the implementation of controls to mitigate the risks of inaccurate discount calculations, incorrect use of valuations and fraudulent applications.

The audit confirmed that the systems and procedures introduced during the last year are robust and are currently working well. The appointment of a part-time right to buy administrator in October 2022 has evidently supported the embedding and consistent application of these revised processes and controls in recent cases tested. Based on discussion with officers and review of the relevant documentation, the Council's Right to Buy Policy was approved by Cabinet on January 2021. There is scope for a review and update of this documentation and for the approved version to be published on the Council's website.

Clear guidance for those wishing to make an application is available on the Council's website. The audit confirmed that applications are currently being processed in accordance with the Council's internal processes and within the statutory timescales set out within the regulations.

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

Assurance Opinion		
Control environment	Good	●
Compliance	Good	●
Organisational impact	Minor	●

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

Since the last Audit and Standards Committee meeting, 8 audit recommendations have been completed.

At the date of reporting, there are 17 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 2. There are two 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	3			●							Q4 testing
Cyber security	20	17				●						Initial delays
Key corporate controls & policies												
Key financial controls	15	7			●							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	7			●							Awaiting evidence for audit
Business continuity management	12	12						●	Satisfactory	Satisfactory	Moderate	Reported in January 2023
Growth and Regeneration – risk based audit coverage												
Licensing	12	14						●	Limited	Satisfactory	Moderate	Reported in November 2022

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Health & Leisure Project	12	12						●	Substantial	Good	Minor	Reported in January 2023
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	Reported in January 2023
Right to Buy	10	10						●	Good	Good	Minor	See section 2.5
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	12	8	
Contingency	10	12	
Advice & Assistance	3	3	
Committee Work, Support & Annual Report	15	13	
Recommendation Follow-Up	3	3.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	11	

Assignment	Budget	Actual	Comments
Other Client Support			
Internal Audit Management & Development	21	19	

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members can expect to receive.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
Major		The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate		The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor		The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
High		Action is imperative to ensure that the objectives for the area under review are met.
Medium		Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low		Action recommended to enhance control or improve operational efficiency.

Appendix 2: 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 implemented since last Committee meeting	3	60%	3	25%	2	25%	8	32%
Actions due within last 3 months, but <u>not implemented</u>	-	-	2	17%	-	-	2	8%
Actions due <u>between 3 and 6 months</u> ago, but <u>not implemented</u>	-	-	3	25%	1	13%	4	16%
Actions due <u>over 6 months</u> ago, but <u>not implemented</u>	2	40%	4	33%	5	62%	11	44%
Totals	5	100%	12	100%	8	100%	25	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.	March 2023: The review is progressing, and we will be writing out to all tenants who receive the IHMS service and asking if they wish to continue to receive the service. From there we will be able to scope and cost the service, and then write back to those tenants asking what level of service they wish to receive, and also including the opt out option again. The proposal at this stage is for either a weekly or fortnightly visit and a life line, however these services will be charged for separately.	Director of Housing & Communities	30/11/2019	-
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.	January 2023: Testing has continued, aiming to go live before April 2023. One remaining IT issue is preventing earlier go live – MBC and software provider in discussions to identify a fix.	Director of Housing & Communities	31/12/2021	April 2023

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.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	2	5	1	-
Communication during Assignments	-	2	6	-	-
Quality of Reporting	-	2	5	1	-
Quality of Recommendations	-	1	6	1	-
Total	-	7	22	3	-

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.