



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2017

Date: 19th September 2017

Introduction

- 1.1 LGSS provides the internal audit service for Melton Borough Council and has been commissioned to provide 235 audit days to deliver the 2017/18 Annual Audit Plan and undertake other work commissioned by the client.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Governance 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 2017/18 be delivered?

LGSS is set the objective of delivering at least 90% of the Internal Audit plans to draft report stage by the end of March 2018.

At the date of reporting, three assignments have been finalised and a further report has been issued as draft for management comments. Fieldwork and planning is currently underway or complete on a further seven assignments.

As such, at the time of reporting, 69% of the Audit Plan is either complete or in progress.

Progress on individual assignments is shown in Appendix 1.

2.2 Are audits being delivered to budget?

Internal Audit is on target to deliver the Audit Plan within the 235 days budget. Any overruns on individual assignments are managed within the overall budget.

2.3 Are clients satisfied with the quality of the Internal Audit assignments?

Responses received to the Customer Satisfaction Questionnaire show that clients have rated all aspects of the audit assignments completed during the year to date as 'good' or 'outstanding'. A summary of the responses is provided in Appendix 2.

2.4 Is the Internal Audit team achieving the expected level of productivity?

As at week 21, the team had been delivering 93% 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 Governance Committee meeting, final reports have been issued for two assignments from the 2016/17 Internal Audit Plan. The key findings arising are as follows:




Melton Community Lottery

The Council established a local community lottery in November 2016 to support the voluntary and community sector and help to ease the financial strains on the Council. The lottery is operated by an external management company although the Council controls the process for approving participating community organisations. Strong controls are essential to ensure value for money and to minimise the risk of fraud and corruption.

The Council has established formal terms and conditions setting out the eligibility criteria for organisations to participate in the lottery. Testing of a sample of applications confirmed that evidence was available to support the decision to reject or approve the organisations in most cases. However, documentation and record keeping could be improved to ensure there is a full audit trail of the application and decision making process. There is an intention to periodically review all participating organisations, although the details have not yet been formalised.

Appropriate arrangements are in place to review and approve the payment of lottery proceeds. At the time of audit, no VAT invoices had been received from the lottery company for their management fee. Internal Audit has been advised that these have since been received.

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

Assurance Opinion	
Control environment	Satisfactory 
Compliance	Satisfactory 
Organisational impact	Minor 

In order to further improve the controls and compliance, four recommendations have been made and an action plan agreed with management to implement these.

Data Management

The Data Protection Act 1998 (DPA) requires all organisations that handle personal information to comply with a number of important principles regarding privacy and disclosure. Anyone who processes personal information must comply with eight principles of good information handling. Internal Audit reviewed the Council's procedures and controls to ensure personal data is held and handled in a secure manner and any data loss incidents are suitably reported and acted upon.

General Data Protection Regulations (GDPR) will apply in the UK from 25th May 2018. The Council is actively taking steps to implement controls and processes to ensure compliance. An indicative implementation plan has been designed, covering all key areas of the GDPR and regular reviews are taking place.




Policies on data protection, data retention and disposal and ICT security are in place and readily available to staff however Internal Audit testing highlighted that compliance with policies is inconsistent and further communication and training is required to remind officers of where policies can be found and the importance of compliance. Online data protection legislation is mandatory for all employees however there was no evidence that 80% of the audit sample had completed the training.

Access to paper records is being controlled on and off site, however access to electronic records held on network folders is not routinely reviewed and could potentially put the Council at risk of not complying with data protection legislation.

Procedures for logging and handling Subject Access Requests (SAR) require improvement. Internal Audit found incomplete and inconsistent records of SARs and SAR information provided to the public on the Council's website could be enhanced.

Controls over data breach management and network user access controls appear to be robust and operating effectively.

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

Assurance Opinion	
Control environment	Satisfactory 
Compliance	Satisfactory 
Organisational impact	Moderate 

In order to further improve the controls and compliance, 16 recommendations have been made and an action plan agreed with management to implement these.

Members can request copies of all final Internal Audit reports from the Head of Internal Audit or Head of Central Services at any time.

2.6 Are clients progressing audit recommendations with appropriate urgency?

Since the last Committee meeting, 12 actions from audit reports have been completed by officers. At the date of reporting, there are 26 agreed management actions which are overdue for implementation. Reasons have been provided and revised dates for implementation have been agreed, where appropriate. An analysis of the implementation

of actions is provided in Appendix 3. Of the overdue actions, three are of a 'high' priority and have been overdue for more than three months – as such, full details are provided in Appendix 4.

Appendix 1: Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by 

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Corporate Governance & Counter Fraud												
Cyber Security	15	0.3		●								
Whistleblowing training	3	1				●			N/A			Training delivered
Key Corporate Controls & Policies												
Key Financial Controls	15		●									
Procurement Compliance	10		●									
Data Management	15	18						●	Satisfactory	Satisfactory	Moderate	
Safe Driving at Work	3	4					●					
Corporate Objective: Place												
Waste Contract Procurement	12	3.5			●							
Development Control	15	0.7			●							
Corporate Objective: People												




Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Leisure Vision Phase 1	10	0.3			●							
Leisure Vision Phase 2 (embedded)	15	0.4			●							
Melton Lottery	5	4.9						●	Satisfactory	Satisfactory	Minor	
Anti Social Behaviour & Community Safety	12	5.9				●						
Me and My Learning	12		●									
Corporate Objective: Agile Council												
Transformation Programme (Consultancy)	12		●									
Housing Benefits	14			●								
Out of Hours	12	0.7			●							

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	2.5	
Committee Work, Support & Annual Report	15	3.3	
Recommendation Follow-Up	3	1	

Assignment	Budget	Actual	Comments
Other Client Support			
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	1.7	
Internal Audit Management & Development	21	4.7	


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
Essential		Action is imperative to ensure that the objectives for the area under review are met.

Important		Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Standard		Action recommended to enhance control or improve operational efficiency.

Appendix 2: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. The Head of Service and the Line Manager receive a CSQ for all assignments within their areas of responsibility. The standard CSQ asks for the client’s opinion of four key aspects of the assignment. The responses received in the year to date are set out below.

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

Appendix 3: Implementation of Audit Recommendations

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	1	14%	4	31%	7	39%	12	32%
Actions due within last 3 months, but <u>not implemented</u>	3	43%	5	38%	6	33%	14	36%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	3	43%	4	31%	5	28%	12	32%
Totals	7	100%	13	100%	18	100%	38	100%

Appendix 4: 'High' Priority actions overdue for more than three months

Audit Title and Year	Service Area	Issue / Outstanding Action	Update and Reason for Revised Implementation Timescale	Officer Responsible	Original Date	Revised Date
Staff Development & Training 2016/17	Communications /HR	Mandatory training – monitoring of completion	There has been a problem with the reporting feature in MIKE - this is currently being resolved.	Communications Manager	30/04/2017	31/12/2107
Housing Options & Homelessness 2016/17	Communities & Neighbourhoods	Homelessness Strategy	The Homelessness review and Draft Strategy are being presented to members of CSA at their meeting of 13/09/17 for approval. Delayed due to key officer absence.	Head of Communities & Neighbourhoods	31/12/2016	30/09/2017
Grounds & Environmental Maintenance 2016/17	Communities & Neighbourhoods	Develop a range of performance indicators	Drafted - will consult with higher management to agree KPIs that will be monitored - to be completed by end September 17.	Head of Communities & Neighbourhoods	30/04/2017	30/09/2017

Appendix 5: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

The Consortium is undertaking a programme of work agreed by the council's senior managers and approved by the Governance 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 the Consortium 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 the Consortium's attention. As a consequence, the Governance 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 the Consortium'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.

The Consortium 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.