Melton Borough Council

Internal Audit Progress Report

July 2024

Introduction

1.1   The delegated internal audit service for Melton Borough Council has been commissioned to provide 235 audit days to deliver the 2024/25 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 service.

Performance

2.1   **Will the Internal Audit Plan for 2024/25 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 2025.

At the time of reporting, fieldwork is either completed or underway on 50% of assignments from the 2024/25 Internal Audit plan. 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?**

To date, no surveys have been completed in respect of 2024/25 audits. Responses are summarised in Appendix 4.

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

Since the last Audit and Standards Committee meeting, 11 agreed actions have been completed. At the date of reporting, there are 32 agreed actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 2. There are 5 actions which were assessed as 'High' priority and have been overdue for more than three months – full details are provided in Appendix 3 and Appendix B.

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:

Financial systems key controls 2023/24

The scope of this audit was to provide:

- Assurance that the key control framework in place addresses the risks associated with the administration and payment of Council Tax Support (CTS);
- Assurance that the key risks for the treasury management system have been identified and that robust and effective controls are in place to address these risks; and
- Independent confirmation that previously agreed internal audit recommendations made in the 2022/23 financial systems audit have been implemented.

In overall terms, the audit confirmed that the design and operation of controls in respect of administering the CTS scheme and administering the Council's treasury management activities are effective and substantial assurance has been provided for both of these areas. The element of the audit relating to housing benefit overpayments did however identify some weaknesses in the application of debt recovery procedures. For this reason, the overall level of 'compliance' assurance shown below across all three areas reviewed has been ranked as 'Good' rather than 'Substantial'

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

Assurance Opinion	
Control environment	Substantial (Green)
Compliance	Good (Green)
Organisational impact	Low (Green)

Budgetary control 2023/24

Budget setting and budgetary control is a fundamental part of the Council's internal control framework and directly supports the Council's corporate priority of ensuring the right conditions to support service delivery through financial sustainability.

The 2024/25 budget was approved by Council on 22nd February 2024 based on a forecast net general fund expenditure of £5.8 million with an estimate deficit of £81k on General Expenses and £13k deficit on Special Expenses met from reserves. Forecasts from 2025/26 onwards show a potential deficit of £438k rising to £1.001 million indicating a need for ongoing budget savings. The 2024/25 HRA budget forecasts a £217k net contribution to reserves based on a 7.7% rent increase. There is a general fund five-year capital programme of £5.3 million and a HRA four-year capital programme of £13.1 million funded from a combination of reserves, grants and capital receipts.

Based on the audit findings, there is a sound system of controls in place for budget setting and budget reporting. Whilst there are no written procedures, suitable guidance and support is in place and roles are well established and generally understood. There is scope to improve engagement and ownership amongst some budget holders and all members of the senior leadership team should continue to emphasise the message that budget setting and management is an integral part of a service manager's role.

Budget setting arrangements are robust and plans are in place to simplify and improve the process for development and approval of future growth bids. Review of savings plans to address future budget deficits is due to be included in a forthcoming peer review and was therefore excluded from this audit. Budget management and reporting processes are clear and effective. There are some budgets that do not currently have a nominated budget holder due to a vacant post, but suitable cover arrangements are in place pending appointment to the role. Testing of virements and supplementary estimates identified scope to improve controls, which has already been implemented. All significant budget variances are suitably reported and explained.

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

Assurance Opinion	
Control environment	Good (Green)
Compliance	Good (Green)
Organisational impact	Low (Green)

Procurement compliance 2023/24

The Council's Contract Procedure Rules (CPRs) are designed to ensure probity and value for money when procuring goods, works or services that meet the Council's needs and comply with legal requirements. The audit was carried out to provide assurance that officers are complying with the approved rules and practices.

Current CPRs and procurement guidance can be accessed by all staff on the Council's Intranet/SharePoint. There is scope for the information to be reviewed and updated to enable staff to comply with the rules and practices accurately.

An audit sample was selected to cover all departments and a range of financial thresholds, where possible. The sample contained one contract from the published expenditure report and five entries from the contract register. Of the contracts tested, all were awarded in compliance with CPR requirements. Whilst contract awards tested had been conducted in line with the CPRs, it was noted that the contracts were not consistently included within the contracts register following award.

To comply with the Local Government Transparency Code, the Council publishes all expenditure over £500 on its website together with a link to the online contract register. Review of expenditure reports for 2023/24 and comparison to the contract register identified a number of discrepancies where spend could not be matched to a contract register entry. Concerns regarding the completeness and accuracy of the contract register have been reported in previous years and there remains scope for improvement in this area. Welland Procurement have commenced improvement work to review the arrangements whereby contracts are added on to the Council's contract register to ensure consistency and completeness going forward.

Some limited testing was also conducted in relation to total spend where individual orders are below the procurement and spend reporting thresholds and an area of spend has been highlighted where greater transparency and value for money may be achieved through award of a contract. Aggregate spend may be an area for focus in future audit coverage.

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

Assurance Opinion	
Control environment	Good (Green)
Compliance	Moderate (Amber)
Organisational impact	Low (Green)

Council tax and business rates exemptions 2023/24

Council tax and business rates together make up local authorities' largest source of income. The Council must ensure that income due is charged and recovered from residential properties and business premises occupiers – this includes identifying rateable new/changed use properties; ensuring any exemptions still apply; and identifying any void properties brought back into use.

Some properties are eligible for discounts or are exempt from council tax.

Business premises with a rateable value of £12,000 or less are exempt from business rates and those up to £15,000 are eligible for small business rates relief. There are other reliefs and exemptions, including an 80% discount for properties used by charities.

The scope of the audit was to provide assurance over the Council's arrangements for identifying taxable properties in the borough and ensuring that exemptions in place on properties remain valid.

The audit confirmed that there is a general requirement to review and improve the processes currently followed to identify newly built dwellings and new/extended

business premises. They key areas that are either already being reviewed, or should be added to the review, are as follows:

- Development of electronic records of all new build dwellings identified to enable regular management review and reconciliation with revenues system;
- Implementation of reports to revenues team of all planning permissions granted for new dwellings and new/extended business premises; and
- Introduction of evidenced reviews of homes and business premises that are exempt from payment of local taxes.

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

Assurance Opinion	
Control environment	Moderate (Amber)
Compliance	Good (Green)
Organisational impact	Low (Green)

UK Shared Prosperity Fund (UKSPF) and Rural England Fund 2023/24

On 13th April 2022, the Government announced the UK Shared Prosperity Fund (UKSPF), which was a national non-competitive fund that allowed Local Authority areas to submit Investment Plans to national government to put a case forward as to how their share of funding would be used to enhance the local area. Following significant consultation with partners and stakeholders, the Council was successful in obtaining £1.19m on 16th December 2022. A further £400k was successfully obtained following the successful submission of a Rural England Prosperity Fund (REPF) addendum to national government which has been integrated into the UKSPF Programme. This audit focussed on the governance arrangements and financial management of the UKSPF and Rural England Prosperity Fund.

The UKSPF programme is supported by robust governance arrangements, ensuring effective oversight and management. Regular and systematic reviews and evaluations of the investment plan are conducted by officers, senior management and Members enhancing accountability and strategic alignment. Additionally, there is a comprehensive system in place for tracking expenditure and measuring outputs.

Appropriate delegations have been granted to officers to authorise spend and make decisions regarding approvals and contract awards. This ensures consistent delivery of the UKSPF programme in accordance with the investment plan's objectives and requirements. The Council also has established procedures to identify and report on current or emerging operational or financial risks against the delivery of the investment plan.

Clear procedures, principles and criteria have been established for the awarding of business grants. This ensures transparency, fairness and efficiency in the allocation of funds to support businesses.

A sample of two interventions and three business grants was selected for review, all of which had received appropriate approval. All three business grants underwent thorough assessment against predetermined criteria, ensuring adherence to established procedure. The UKSPF team, however, noted variations in the quality of business grant applications amongst applicants. Consequently, the Council has implemented application workshops aimed at improving the quality of submissions, thereby enhancing the efficiency of the process for the next round.

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

Assurance Opinion	
Control environment	Substantial (Green)
Compliance	Substantial (Green)
Organisational impact	Low (Green)

Preparing for Social Housing Regulation change 2023/24

The Social Housing (Regulation) Act 2023 introduces new regulatory arrangements for Social Housing Landlords, which landlords will need to be able to demonstrate compliance with by April 2024. It significantly strengthens the role of the Regulator for Social Housing (RSH) as the Government body responsible for overseeing landlords in the social housing sector. Melton Borough Council commissioned this audit as part of its 2023/24 audit programme and the audit commenced in February 2024. This audit focussed on the Council's preparedness for the regulatory change and inspection regime.

In March 2024, the Council was notified that it had been selected for inspection in the first round of regulatory inspections from April 2024.

The Council has taken proactive steps in preparing for the new regulations by appointing a regulatory assurance lead to support the preparation process and comprehending the implications of the upcoming changes. To address potential regulatory risks, light-touch service reviews have been conducted in areas deemed high risk and a diagnostic health check against the existing Consumer Regulations was carried out to identify any areas of risk or concern. The final consumer standards for 2023/24 were published on 29th February 2024 and it is important the Council self-assess against these standards to demonstrate to the Regulator the Council's commitment and proactive approach to addressing any identified issues and achieving compliance as well as showcasing transparency.

Communication has been a strong focus throughout the preparation process, with the Council maintaining effective engagement with officers, tenants, senior management and Members as well as collaborating with colleagues from other Local Authorities in Leicestershire. Additionally, a Landlord Assurance Board has been established indicating a structured and organised approach to overseeing compliance and regulatory matters and new statutory roles have been assigned, although appointing deputies to these roles should be considered to ensure operational resilience.

The Council has demonstrated commitment to tenant satisfaction by effectively collecting survey data via Housemark, in order to provide information on the Regulator's Tenant Satisfaction Measures (TSMs), by June 2024.

The Council's recently approved Corporate Strategy (2024-2036) is supported by a four-year corporate delivery plan that outlines specific objectives, actions and timelines in relation to providing high quality homes and landlord services. However, it is noted, that whilst it is in development, a finalised HRA (Housing) Service Plan is currently absent. A well-defined plan is important as it provides a structured framework for managing and delivering social housing services effectively from an operational perspective. It is also recommended to establish an inspection project team so that each staff member understands their specific contribution to the inspection process ensuring effective preparation, co-ordination and execution of the inspection process.

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

Assurance Opinion	
Control environment	Good (Green)
Compliance	Good (Green)
Organisational impact	Medium (Amber)

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												
Counter fraud support – social housing pilot	6	1			●							
Key corporate controls & policies												
Key financial controls	15	-	●									
Information governance	15	3			●							
Resettlement scheme	10	2		●								
Growth and Regeneration – risk-based audit coverage												
Levelling Up Fund (LUF)	15	2			●							
Building control partnership	8	-	●									
Asset development programme	15	-	●									
Private sector housing	15	-	●									

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Housing and Communities – risk-based audit coverage												
Housing allocations and homelessness applications	18	18					●					
Planned maintenance	12	1			●							
Housing repairs and voids – follow up	8	1			●							
Landlord health and safety	6	-	●									
Social housing regulatory change	20	-	●									
Rent arrears	12	-	●									

Assignment	Budget	Actual	Comments
Other client support			
Contingency	2	-	
Advice and assistance	3	3	
Committee work, support and Annual Report	15	4	
Recommendation follow-up	3	1	
Client meetings, AGS/NFI & External Audit, audit planning	15	2	
Internal Audit management and development	21	6	

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 is a sound system of internal control to support delivery of the objectives.	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good 🟢	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate 🟡	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited 🔴	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No 🔴	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational Impact

Level		Definition
High	🔴	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.
Medium	🟡	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.
Low	🟢	The weaknesses identified during the review have left the Council open to low risk. This may have a low 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	1	17%	8	31%	2	18%	11	**26%**
Actions due within last 3 months, but **not implemented**	-	-	4	15%	3	27%	7	**16%**
Actions due **over 3 months** ago, but **not implemented**	5	83%	14	54%	6	55%	25	**58%**
Totals	6	100%	26	100%	11	100%	43	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
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.	June 2024 - A draft project programme has been developed which indicates completion of the interface in December 2024. MBC and Axis meeting 11th June to discuss and agree the programme.	Director of Housing & Communities	31/12/2021	December 2024
Business Continuity Management 2022/23	Corporate Lead for Business Continuity	Current Service Area Plans to be fully completed for the following services: · Planning Development; · Regulatory Services; · Property Services; · Democratic Services 'Section 4 – Reinstatement Priorities' was incomplete for all the above service areas.	June 2024 - Still waiting for the meeting with the new Business Continuity officer. Elections and annual leave have delayed progress. New date scheduled in for 24th July.	Corporate Lead for Business Continuity	31/03/2023	-
See Exempt Appendix B paper for three further actions						

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 ten responses received during the year to date are set out below.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	5	4	1	-
Communication during Assignments	-	7	3	-	-
Quality of Reporting	-	6	4	-	-
Quality of Recommendations	-	5	5	-	-
Total	**-**	**23**	**16**	**1**	**-**

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.