

Melton Borough Council
Internal Audit Progress Report
November 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 72% 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, three 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, 14 agreed actions have been completed. At the date of reporting, there are 20 agreed actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 2. There are 3 actions which were assessed as 'High' priority and have been overdue for more than three months – full details are provided in 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 five audits have been finalised:

Resettlement Scheme

The Resettlement Team provides support to refugee families assessed by the Ministry of Defence (MOD) or United Nations High Commissioner for Refugees (UNHCR) as particularly vulnerable and therefore eligible for formal resettlement. Support is organised through the Afghan Relocations and Assistance Policy (ARAP) and Afghan Citizens Resettlement Scheme (ACRS), both of which are government funded schemes which fund support such as housing and help with day-to-day living for a specific period, typically three years. As part of the ARAP and ACRS funding, the Council provides support to refugee families.

In July 2021, the Council's Resettlement Service was delivered via a partnership agreement with Charnwood District Council. However, in August 2023, the service moved 'in-house' to allow the Council to maximise service delivery and value for money. The objective of the audit was to seek assurance that arrangements are in place to ensure that the Council delivers its responsibilities to refugees, and that sufficient financial controls, including around cash handling, are in place.

The audit confirmed that the systems and procedures introduced since the service moved 'in house' are robust and are currently working well. The appointment of a Resettlement Officer in December 2023 supported a consistent approach in service delivery with the creation of a comprehensive tracker to monitor individuals' progress through the schemes, and for outcomes and milestones to be recorded.

Based on audit testing of expenditure, to provide assurance that spending was in accordance with the Home Office expenditure criteria, it was found that some purchases had been made outside of the eligible criteria. In such cases, officers asserted that spend could be justified. Also, value for money should be consistently evidenced as a consideration, in conjunction with the family's essential needs and requirements, when purchases are made.

Based on discussion with officers and review of the relevant documentation there is scope for further development of record-keeping to ensure all funding claims and associated documents are suitably filed within family folders and a clear audit trail is easily available.

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)

Levelling Up Fund (LUF) – project management

The Council is using monies received from the Levelling up Fund (LUF), as well as some match funding, to deliver the Stockyard project, which involves investment in event space and the food and drink sector in Melton Mowbray. Total funding for this project is £16.194m, including £2.035m of match funding. This total incorporates the £2m originally set aside for the college theatre project that has subsequently been removed from the original LUF programme.

The objective of the audit was to evaluate the Council's arrangements for ensuring that capital projects are implemented effectively, with costs and timescales of delivery being managed appropriately and projects delivering expected benefits.

The audit confirmed that there is generally a robust process in place to deliver the Stockyard project. Risk management arrangements were evidenced, with a risk register maintained. There is a need, however, to formalise logging of issues arising during the project.

Testing was undertaken on the procurement processes followed for the award of contracts as part of the project to date. This confirmed that Contract Procedure Rules had been complied with in all cases tested.

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)

Housing allocations and homelessness applications

The 'Allocation of Accommodation: Guidance for Local Authorities in England' is the statutory guidance issued in 2012 to Local Authorities in England (Section 169 of the Housing Act 1996). Housing Authorities are required to have regard to it in exercising their functions under Part VI of the Housing Act 1996. Section 166A of the Housing Act 1996 provides that authorities must also have regard to their homelessness strategies when framing their allocations policy. The Homelessness Reduction Act became law on 3rd April 2018. It placed duties on councils to help all eligible people who are homeless or threatened with homelessness within 56 days. There are duties upon Local authorities to try to prevent and relieve homelessness for households. For those assessed as meeting relevant criteria, the Council has a duty to offer a suitable home and sustainable home.

The audit sought assurance over the consistent and fair application of the housing allocation and homelessness policies and procedures to ensure that qualifying applicants are given an appropriate level of priority. Overall, the housing application process was found to be broadly operating as intended. In relation to homelessness cases, the Council has taken a person-centric approach and has described the nature of a demand led approach for homelessness. This, in addition to training new team members at the time of the audit and a period of high pressure, with resettlement demands and transition for the team, is asserted to have contributed to gaps in documentation to clearly evidence the decisions made. The service manager was aware of quality issues through the completion of case audits and the use of sector tools to assess service quality and was taking steps to ensure more consistent outcomes and performance.

The Council's Housing Allocations Policy is well aligned with the Housing Act 1996, clearly outlining categories for reasonable preference. The structure of the Policy facilitates transparency and accessibility, with comprehensive housing application information readily available on the Council's website, thereby enhancing clarity for applicants regarding eligibility criteria and the application process.

The methods available for reporting fraud are well established, and staff receive training in fraud awareness, which is an important aspect of maintaining the integrity of the housing allocation process.

The audit identified a dependency risk, as the service relies on a single individual to maintain the housing case management system (NEC) and process housing applications. If this individual were to leave, other team members could process applications but there could be delays in processing low priority applications due to capacity constraints and there would be no resource with the correct skills set to maintain the system, posing a risk to the continuity and effectiveness of the process. Additionally, the procedure for managing conflicts of interest is not formally documented, and an instance was found where the intended procedure was not followed, indicating a lapse in adherence to best practices, which could be addressed through formalising of a position on this.

In examining a sample of 25 housing applications, the audit revealed a small number of gaps in supporting documentation but overall the housing application process is broadly operating as intended. There is, however, no secondary review or spot check mechanism in place for housing applications, which could increase the risk of errors or inconsistencies. Notably, discrepancies were identified between the shortlists provided to housing associations and those generated by the NEC system, attributed to system limitations. Furthermore, reasons for bypassing certain applications were not consistently recorded, and there were gaps in the information recorded on the reviews and appeals log, as well as in the documentation supporting the appeals process.

The Council's Homeless and Rough Sleeping Strategy is up to date and aligns with the Department for Levelling Up, Housing and Communities' Homelessness Code of Guidance for Local Authorities. However, significant gaps were identified in documentation to support homelessness applications. Specifically, testing of 15

homelessness applications revealed that 60% lacked a S184 decision letter, and approximately half did not have a Personal Housing Plan available to review, indicating non-compliance with statutory requirements. An isolated case was found where an applicant was housed in a housing association property on a priority need under the main homeless duty, however, in this case no corresponding homeless case had been logged by the Council.

The audit also highlighted the absence of routine supervisory checking to ensure quality and validation of correct processes for homelessness applications. The team responsible for handling these applications is relatively new and has experienced high turnover. Housing options staff have completed the necessary corporate induction training and accessed specific and specialist homelessness training. However, induction training on service specific system processes and controls has been implemented in phases, and the way in which the information has been recorded (individual one to one records rather than a team log of training) meant it was not immediately clear who has received this training and when. Additionally, the Council's website lacks clarity on the documentation requirements for homeless applications to be assessed, and whilst each case is different it is important to give guidance on the documentation needed to assess applications effectively.

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	Limited (Red)
Organisational impact	Medium (Amber)

Planned maintenance

The Council has approximately 1,800 homes and spends over £1 million per year on planned and responsive repairs and maintenance. Recent audits have focused on responsive repairs with the findings being followed up as part of a separate audit. This audit seeks to provide assurances over the contract management processes for planned maintenance works and the links to stock condition information. Effective delivery of planned maintenance directly supports the Council's key priority of providing high quality homes and landlord services.

Prior to commencement of the audit, it was agreed with officers that audit testing in respect of contract management arrangements would focus on the following two contracts: kitchens, bathrooms, adaptations and other works and external painting.

Based on the audit finding, the Council has a comprehensive stock condition database supported by a rolling programme of surveys reportedly providing data in respect of approximately 92% of the housing stock at the time of audit. The database

is used effectively to inform the Asset Management Plan and scheduling of planned maintenance works. There is a clear approach to procurement designed to ensure probity and value for money. The Tenant and Leaseholder Engagement Strategy ensures tenants have input into planned maintenance and capital investment works at both a strategic and operational level.

Contract management arrangements are generally sound and operated by suitably trained and experienced staff, although further operational efficiencies could be achieved through full implementation of the Northgate planned maintenance module. Contracts include appropriate performance indicators and targets supported by regular monitoring and inspections. However, arrangements for recording performance levels and agreed actions could be strengthened and the audit trail improved. All invoices are logged, checked and approved prior to payment but recording of price changes and variations could be strengthened.

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)

Housing repairs and voids – follow up

Recent audits have evaluated management of the responsive repairs and voids contract leading to several recommendations for improvement. This audit aimed to provide assurance that the agreed recommendations from previous audits have been successfully implemented and embedded into standard procedures.

Prior to commencement of this audit, it was noted that ten of the 12 previous recommendations in respect of housing repairs (83%) and five of nine recommendations in respect of voids (56%) had already been implemented, indicating good progress in delivering the necessary improvements. The findings from this audit have confirmed that a positive direction of travel has been maintained with good progress made on all the remaining recommendations. This includes

- A clear timetable and project plan for implementation of the Baris interface with phase one going live in September 2024. Further work is underway on the remaining aspects of the interface and arrangements for scheduling of customer appointments are due to be considered as part of a wider corporate review.
- Strengthening governance arrangements for annual price adjustments, review and regularisation of previous anomalies and further work planned as part of a value for money review.

- Improving the audit trail in respect of invoice payments but with scope to provide a clearer link between chargeable works and the agreed contractual exclusions list.
- Review and update of the voids policy and standard operating procedures with revised documents due to be finalised and approved shortly.
- Work is underway to develop new and improved void performance monitoring reports.

Whilst some recommendations have not yet been fully implemented and three new recommendations have been raised this year, there is clear evidence of improvements since the previous audits and evidence of firm plans and commitment from officers to deliver continuous improvement going forward.

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)

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	13						●	Good (Green)	Moderate (Amber)	Medium (Amber)	Reported in September 2024
Resettlement scheme	10	11						●	Good (Green)	Moderate (Amber)	Low (Green)	See section 2.5
Growth and Regeneration – risk-based audit coverage												
Levelling Up Fund (LUF)	15	15						●	Good (Green)	Good (Green)	Low (Green)	See section 2.5
Building control partnership	8	1		●								
Asset development programme	15	2			●							
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	25						●	Moderate (Amber)	Limited (Red)	Medium (Amber)	See section 2.5
Planned maintenance	12	12						●	Good (Green)	Good (Green)	Low (Green)	See section 2.5
Housing repairs and voids – follow up	8	8						●	Good (Green)	Good (Green)	Low (Green)	See section 2.5
Landlord health and safety	6	5				●						
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	8	
Recommendation follow-up	3	2	
Client meetings, AGS/NFI & External Audit, audit planning	15	7	
Internal Audit management and development	21	8	

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 (Green)	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 (Green)	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 (Amber)	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 (Red)	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 (Red)	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 (Red)	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 (Amber)	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 (Green)	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 (Red)	Action is imperative to ensure that the objectives for the area under review are met.
Medium (Amber)	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low (Green)	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	-	-	13	54%	1	14%	14	41%
Actions due within last 3 months, but <u>not implemented</u>	-	-	4	17%	-	-	4	12%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	3	100%	7	29%	6	86%	16	47%
Totals	3	100%	24	100%	7	100%	34	100%

Appendix 3: 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 three responses received during the year to date are set out below.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	-	3	-	-
Communication during Assignments	-	1	2	-	-
Quality of Reporting	-	1	2	-	-
Quality of Recommendations	1	1	1	-	-
Total	1	3	8	-	-

Appendix 4: 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.