



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

FEBRUARY 2018

Date: 6th February 2018

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, nine assignments have been finalised and fieldwork and planning is currently underway or complete on a further six assignments.

As such, at the time of reporting, 93% 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 41, 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 Governance Committee meeting, three final reports have been issued for assignments from the 2017/18 Internal Audit Plan. The key findings arising are as follows:

Out of Hours Standby

Melton Borough Council (MBC) has a contract with Harborough District Council (HDC) to manage sheltered housing life line calls. The Council's out of hours service was incorporated into this service on 1st December 2015. Prior to this, the service was managed by five MBC members of staff. Internal Audit reviewed the service to provide assurance that it is operating efficiently and effectively.

The Council's out of hours service is operating well and roles and responsibilities have been clearly defined in the contract. Both parties are aware of their duties and MBC informs the control centre of any procedural changes so that guidance is updated accordingly, as well as having regular informal reviews to discuss performance.

Calls are being handled appropriately and timely by the control centre. All 20 calls reviewed by Internal Audit were dealt with in accordance with Council procedure and the appropriate person or team was notified in each case. However testing highlighted that two (10%) calls in the sample were taken during normal office hours and neither party knew why or how this happened. The Council is invoiced based on the number of calls received therefore additional costs may be incurred.

The control centre provides quarterly reports outlining the number and type of calls received on a monthly basis, allowing MBC staff to identify and address possible trends.

The Council has achieved a saving of approximately £12,800 per annum based on 2016/17 costs, however a review of paid invoices highlighted that five of eight invoices received do not agree to the charges outlined in the contract, resulting in the Council being undercharged by £1,071.41.

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

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

Benefits

The Council spends approximately £9 million per annum on Housing Benefits; the bulk of which is reclaimed in government grant through the Housing Benefit Subsidy Claim. Given the large sums of money involved and potential impact on its financial standing, it is important that the Council has robust and effective controls to minimise the risk of fraud and error. In common with other Councils, Melton's subsidy claim has been qualified by the

external auditor in recent years due to processing errors and incorrect classification of overpayments.

Internal Audit found that the Council has clear and comprehensive process maps and procedure notes for most core functions, including guidance on evidence requirements and assessment of claims. Testing confirmed that system parameters have been accurately updated, although last year’s audit recommendation to retain evidence of the update and checking of parameters has not yet been implemented. Arrangements for the verification and accurate assessment of claims are generally robust and there is an appropriate separation of duties for preparation and approval of rent allowance payments. However, monthly reconciliations are not being carried out to ensure that all transactions are fully and accurately reflected in the housing rents, council tax and main accounting systems. This control lapsed following the departure of the former Benefits Team Leader.

The level of outstanding overpayments is relatively high compared to other councils and recovery arrangements are not fully developed. Insufficient priority and resources have been allocated to recovery of outstanding sundry debtor accounts and there are a large number of overpayments in the benefits system related to inactive cases where the debt is not being pursued. Temporary resources have been allocated to review, write-off or recover these balances where possible, although longer-term arrangements are yet to be established.

Quality control arrangements are operating effectively although overall levels of errors detected have increased this year and there remain some recurring themes (e.g. assessing earned income). Appropriate training and development arrangements are in place to address these issues but the lack of specialisation in benefit assessment is likely to increase the risk of errors and inconsistency.

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	●

Development Control




Development control is the process through which the Council manages changes in the use and appearance of the local environment and delivers the development and infrastructure the Borough requires. It operates within a complex legal and regulatory framework and is required to deliver outcomes to a range of stakeholders with differing priorities and expectations. Poor decisions can have long-term consequences and significant financial implications.

The development control team has undergone considerable change and turnover of staff in the last 12-18 months. This has stabilised recently but the loss of valuable experience and local knowledge will inevitably impact on operational efficiency. A report by the Planning Advisory Service in December 2016 identified several inefficiencies and made a number of recommendations for improvement. Progress has been made but has been slow because of the budget setting timetables on which some of the proposed measures depended and staffing changes, particularly the corporate decision not to replace the manager with direct and dedicated responsibility for the service area. Steps are now being taken to improve and streamline processes wherever possible and this is starting to bear fruit. However, there remains considerable scope to improve the speed and efficiency of validation and administrative processes through greater automation and removal of unnecessary manual tasks.

Arrangements for the collection of fees are sound and sample testing confirmed that the correct fee had been calculated and received in all cases.

Performance against national targets for speed of decisions shows an improving trend but remains below the national average for all except major applications. Moreover, the basis for collection and recording of statistics does not comply with government guidance meaning that reported performance is likely to be over-stated. Formal monitoring and reporting of quality focuses largely on the review of appeal decisions, although agent forums have recently been reinstated and plans are in place for periodic tours of the borough to reflect on the outcome of decisions. Performance reporting to the planning committee has slipped, however, and there is scope to develop a broader range of quality indicators 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	Limited	
Compliance	Satisfactory	
Organisational impact	Moderate	

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

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

Since the last Committee meeting, 15 actions from audit reports have been completed by officers. At the date of reporting, there are 32 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, one is of a 'high' priority and has 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	3						●	N/A			Training delivered
Key Corporate Controls & Policies												
Key Financial Controls	15	12				●						
Procurement Compliance	10	4.9			●							
Data Management	15	18						●	Satisfactory	Satisfactory	Moderate	
Safe Driving at Work	3	4						●	Good	Limited	Minor	
Corporate Objective: Place												
Waste Contract Procurement (stage 1)	12	8.4						●	Good	Good	Minor	
Development Control	15	16.4						●	Limited	Satisfactory	Moderate	See 2.5
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	0.7			●							
Leisure Vision Phase 2 (embedded)	15	0.9			●							
Melton Lottery	5	4.9						●	Satisfactory	Satisfactory	Minor	
Anti Social Behaviour & Community Safety	12	14.4						●	Good	Good	Minor	
Me and My Learning	12	0.1			●							
Corporate Objective: Agile Council												
Transformation Programme (Consultancy)	12		●									
Housing Benefits	14	18.2						●	Satisfactory	Satisfactory	Moderate	See 2.5
Out of Hours	12	6.4						●	Substantial	Substantial	Minor	See 2.5

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	6.4	
Committee Work, Support & Annual Report	15	6.8	
Recommendation Follow-Up	3	1.5	

Assignment	Budget	Actual	Comments
Other Client Support			
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	6.4	
Internal Audit Management & Development	21	8.1	


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		4	2		
Communication during Assignments		4	2		
Quality of Reporting		4	2		
Quality of Recommendations		1	5		
Total	-	13	11	-	-

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	5	83%	4	18%	6	32%	15	32%
Actions due within last 3 months, but <u>not implemented</u>	-	-	5	23%	2	11%	7	15%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	17%	13	59%	11	57%	25	53%
Totals	6	100%	22	100%	19	100%	47	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 have been issues with the reporting function in MIKE. The upgrade has been approved and is in progress which should resolve this.	Communications Manager	30/04/2017	31/12/2017

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.