



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

MARCH 2018

Date: 27th March 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, 12 assignments have been finalised and fieldwork is either in advanced stages or complete on all remaining assignments.

As such, at the time of reporting, 100% 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 47, 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:

Financial Systems Key Controls

A review of the Council's financial systems was undertaken to provide assurance that sufficiently robust controls are in place, and operating consistently. The audit focussed on key controls relating to creditor payments, housing rents, and council tax and national non-domestic rates (NNDR) discounts, exemptions and reliefs.

Audit testing confirmed that controls for the creditors' function are robust and operating effectively in practice. Furthermore, sample testing of key controls in relation to purchase invoices, credit notes, BACS payments, control account reconciliations and aged creditor reviews all confirmed 100% compliance with controls.

The Council use the Northgate system to administer housing rents. A review of user access to this system identified that nine leavers had not had their access removed, however this access was reviewed during the audit and has now been revoked.

Sufficient processes are in place to ensure that rental properties acquired are added to the rent roll without delay and that properties disposed of are removed from the rent roll promptly. However, it would be best practice to perform an annual reconciliation of the rent roll (Northgate) to legal property records to ensure that rent is being charged for all properties owned by the Council.

There are appropriate arrangements in place to ensure that approved rent decreases are applied accurately to all tenancies.

The Council has a well-defined process for the recovery of housing rents. Testing confirmed that appropriate action was taken where required and the recovery of debt is reviewed regularly by officers. Income is collected and allocated to accounts in a timely manner and unallocated payments are reviewed daily.

Local guidance on the frequency on which council tax and NNDR reliefs, discounts and exemptions should be reviewed and the type(s) of evidence that is accepted for each application is not documented. This can potentially lead in inconsistent application of processes, which could increase the potential risk of fraud.

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	●

Leisure Vision Phase 2

In 2017, the Council commenced work on Phase 2 of the Leisure Vision project. This phase of the project was established to secure the ongoing operation of the Melton Sports and Leisure Village and potential future development involving the design, build, operation and maintenance of leisure facilities including a community stadium.

A comprehensive competitive dialogue process was undertaken by the Council, engaging a number of potential operators and exploring options for future development of the facilities. Given the predicted value of the contract and the application of competitive dialogue, it is of assurance that procurement and finance professionals have been engaged in key stages. The Invitation to Submit Detailed Solutions (ISDS) stage highlighted a number of future opportunities but also concerns from all bidders regarding the affordability of the new development in the current environment (i.e. competition, infrastructure) and, as such, it has been proposed that no further development be planned at this point. An informed decision has therefore be made that the wider, procurement process for a Design, Build, Operation and Maintenance (DBOM) contract should no longer progress at this point and will be deferred for longer term planning and development. A contract for the ongoing management of the facilities had been an option in the procurement process, for which bids were invited, and a recommendation has been approved by Full Council for the award of this contract, which should generate savings for the authority.

The project's governance and decision making arrangements were clearly established at the outset and evidence provided demonstrates compliance with these during the project to date. Risk identification at the initiation stage was comprehensive and well documented and project highlight reports have been provided detailing progress and matters arising. Some areas for improvement in relation to ongoing recorded risk management have been discussed with management.

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	●

Waste Contract Procurement

Effective waste management and street cleaning supports the Council's key priority of delivering well respected and value for money customer focused services with pride and efficiency. The Council's current contract with Biffa Municipal has been in place since 2003

and was due to end on 31st March 2017. The contract was extended to 30th September 2018 to provide sufficient time to explore a range of options for future service delivery.

The project to consider options for the future provision of waste and street cleaning services was initiated in August 2014. Following completion of an initial exercise to assess market interest the formal procurement process commenced in March 2017 using the competitive dialogue approach. It was agreed that Internal Audit would carry out an ‘embedded assurance’ review of the project to assess progress and governance arrangements at key stages in its life cycle and provide reports at the appropriate time. The first stage review was conducted in summer 2017 and the draft report issued in September 2017 (finalised November 2017).

Internal Audit’s stage one report concluded that the project was being well managed and made just two recommendations for improvement. Both recommendations have been implemented and overall governance arrangements remain sound. There has been some minor slippage in the timetable but this has been managed effectively to ensure no impact on the proposed contract start date. Evaluation of final bids has recently been completed and savings targets are expected to be achieved or exceeded. Authority is being sought from Melton Economic and Environmental Affairs Committee (MEEA) and Full Council to award preferred bidder status, with final contract optimisation arrangements delegated to the Chief Executive and Leader of the Council.

As previously reported, the project management budget for consultancy support has significantly exceeded initial estimates primarily due to a greater than expected market interest leading to more work to support additional rounds of dialogue, assessment, evaluation and moderation. Consequently, MEEA have agreed to recommend Council approval of a supplementary estimate of £99k, increasing the project budget to £159k. Officers are confident that the revised budget will be sufficient to see the project through to completion.

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

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

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

2.6 Are clients progressing audit recommendations with appropriate urgency?


At the date of reporting, there are 37 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.

2.7 Update on Fraud investigation work

In 2016/17 the Head of Internal Audit delivered an investigation into an alleged fraud by a Council officer. The allegation was that the officer had failed to declare a connection with a company to whom a contract had been awarded. From the investigation work, evidence was identified to support the allegation and falsified documentation was found in relation to the contract award. The Head of Internal Audit produced a comprehensive evidence bundle and recommended to the Council's senior management that the findings be referred to the police as alleged Fraud by Abuse of Position, under the Fraud Act. Senior management fully supported the police referral and ongoing investigation work.

A criminal investigation has been underway since 2016 and on 22nd February 2018 both the former Council officer and his wife pleaded guilty on both counts of Fraud by Abuse of Position and Acquisition of Criminal Property. The outcome has been publicised to promote the Council's zero tolerance to fraud and sentencing will take place in March 2018.

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	1.5			●							
Whistleblowing training	3	3						●	N/A			Training delivered
Key Corporate Controls & Policies												
Key Financial Controls	15	16.5						●	Good	Good	Minor	See 2.5
Procurement Compliance	10	6.6				●						
Data Management	15	18						●	Satisfactory	Satisfactory	Moderate	
Safe Driving at Work	3	4						●	Good	Limited	Minor	
Corporate Objective: Place												
Waste Contract Procurement (stage 1)	8	8.3						●	Good	Good	Minor	
Waste Contract Procurement (stage 2)	4	4						●	Substantial	Good	Minor	See 2.5
Development Control	15	17.6						●	Limited	Satisfactory	Moderate	

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Housing Repairs (consultancy)	7	6.6						●	N/A			
Corporate Objective: People												
Leisure Vision Phase 1	10	1.7				●						
Leisure Vision Phase 2	15	5.8						●	Good	Good	Minor	See 2.5
Melton Lottery	5	4.9						●	Satisfactory	Satisfactory	Minor	
Anti Social Behaviour & Community Safety	12	14.6						●	Good	Good	Minor	
Me and My Learning	12	1.1			●							
Corporate Objective: Agile Council												
Housing Benefits	14	18.6						●	Satisfactory	Satisfactory	Moderate	
Out of Hours	12	6.4						●	Substantial	Substantial	Minor	

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	6.4	
Unplanned work – investigations / support	7	7	

Assignment	Budget	Actual	Comments
Other Client Support			
Committee Work, Support & Annual Report	15	7.4	
Recommendation Follow-Up	3	1.5	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	9.6	
Internal Audit Management & Development	21	9.9	

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		6	3		
Communication during Assignments		6	3		
Quality of Reporting		5	4		
Quality of Recommendations		2	7		
Total	-	19	17	-	-

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	-	-	3	14%	1	6%	4	10%
Actions due within last 3 months, but <u>not implemented</u>	1	50-	8	36%	6	35%	15	37%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	50%	11	50%	10	59%	22	53%
Totals	2	100%	22	100%	17	100%	41	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	<p>There have been issues with the reporting function in MIKE. The upgrade has been approved and is in progress which should resolve this.</p> <p>Meeting with supplier in February was postponed due to unforeseen circumstances – revised date set of May 2018.</p>	Communications Manager	30/04/2017	31/05/2018

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.