



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2018

Date: 18th September 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 2018/19 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 2018/19 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 2019.

At the time of reporting, 65% 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 20, the team had been delivering 96% 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 start of the financial year, three final reports have been issued for assignments from the 2018/19 Internal Audit Plan. The key findings arising are as follows:

IR35

Robust systems and controls for ensuring compliance with relevant tax and employment legislation are essential elements of the Council's overall financial management

arrangements. IR35 is intended to stop 'disguised employment' whereby staff are appointed 'off payroll' through companies or similar trading arrangements that avoid the need to make tax and other deductions at source or to pay employer's national insurance contributions. The employee is also potentially able to benefit from a reduced tax bill. IR35 has been in place since 2000 but from April 2017 the responsibility for determining whether the rules apply in public sector organisations shifted from the contractor to the hiring organisation. Penalties for non-compliance include repaying HMRC the tax and national insurance due and a fine ranging between 30% and 100% of the value of the tax due.

The Council's arrangements for the identification and assessment of cases within the scope of IR35 are currently inadequate and expose the Council to unnecessary risk of financial penalties. Reliance is largely placed on individual managers being aware of their responsibility to undertake the relevant pre-appointment checks. Monitoring and recording of cases potentially within the scope of IR35 is undertaken by the HR team using the ICT new starter form. However, testing identified some cases that had not been identified through this process and records indicate that 65% of cases that had been identified in this way had no evidence of an IR35 assessment being undertaken.

There is currently no formal policy, procedures or guidance on the Council's approach to off-payroll workers. Where appointments are made through a staffing agency managers have been advised to seek written confirmation from the agency that tax and national insurance are being appropriately deducted. For other cases managers are advised to use the HMRC online status checker tool. However, accurate completion of the tool is open to interpretation and can be easily manipulated to achieve the desired outcome. Testing identified one case with inconsistencies in the tool and two further cases that had been completed by the worker rather than the manager. The consequences of an incorrect assessment could be significant in terms of potential financial liability.

There is currently no formal guidance for managers on the respective employment rights and obligations of different classes of off-payroll workers. Officers stated that a cautious approach is generally adopted and that any issues are dealt with on a case-by-case basis, although this has led to some inconsistencies in treatment.

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	Limited	
Organisational impact	Moderate	

Beckmill Court Regeneration Project

The Beckmill Court regeneration project is a major capital scheme that supports the Council's corporate objective of helping to provide homes and environments that meet local needs. In 2012 the buildings were given a negative value and consultants were engaged to undertake a condition survey. In 2013 a feasibility study was undertaken to consider options for the building. In 2014 a further feasibility study and cost estimation exercise was undertaken for the preferred option. In 2015 a development study was undertaken and a budget estimate of £3.1m advised by consultants. In 2016 design work and preparations for tender were carried out. In 2017 a contract was awarded to Fortem for £2.02m and works commenced in October 2017 with a planned completion date of June 2018.

Overall arrangements for management and control of the project were not fully compliant with the Council's established project management framework. Documentation is lacking in several areas making it difficult to demonstrate that the project has been robustly managed at all stages and that value for money has been achieved, particularly in respect of the appointment of consultants. The project has been delivered over an extended period of time compared to the original timescales established at the feasibility stage. There have been several changes of staff in key project roles during this time and it has not always been possible to establish whether the absence of documentation is due to a failure of process or a failure of record keeping.

Officers are satisfied that the key outcomes of the project (to complete essential repairs and regeneration works to improve residents quality of life) will be delivered as planned although there have been significant delays and latest estimates indicate that the project will be overspent by approximately £116k.

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	Limited	●
Organisational impact	Moderate	●

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, 30 actions from audit reports have been completed by officers. At the date of reporting, there are 24 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.

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												
Code of Corporate Governance	4	4							N/A			
General Data Protection Regulation (GDPR)	15	0.5										
FOI and EIR	10	-										
Right to Buy	5	0.1										
Council Tax Support	12	-										
Risk Management	10	-										
Key Corporate Controls & Policies												
Key Financial Controls	15	-										
IR35	10	10							Limited 	Limited 	Moderate 	See para 2.5
Debt Management (consultancy)	7	6.8										

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Travel Expense Claims	7	5.1			●							
Business Continuity Management & Emergency Planning	10	1.4			●							
Absence Management	12	12					●					
Corporate Objective: Place												
Beckmill Court Regeneration Project	10	13						●	Satisfactory ●	Limited ●	Moderate ●	See para 2.5
Gretton Court	15	0.3		●								
Housing Repairs	15	0.7		●								
Environmental Health	15	1.9		●								
Corporate Objective: People												
Safeguarding	11	-	●									

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	2	2.4	

Assignment	Budget	Actual	Comments
Other Client Support			
Committee Work, Support & Annual Report	15	4.2	
Recommendation Follow-Up	3	0.8	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	3.2	
Internal Audit Management & Development	21	2.1	

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
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: 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	2	-	-
Communication during Assignments	-	-	4	-	-
Quality of Reporting	-	-	4	-	-
Quality of Recommendations	-	-	4	-	-
Total	1	1	14	-	-

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	4	100%	14	44%	12	66%	30	56%
Actions due within last 3 months, but <u>not implemented</u>	-	-	7	22%	3	17%	10	19%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	-	-	11	34%	3	17%	14	25%
Totals	4	100%	32	100%	18	100%	54	100%

Appendix 4: 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.