



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

NOVEMBER 2018

Date: 20th November 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 last committee meeting, three further final reports have been issued for assignments from the 2018/19 Internal Audit Plan. The key findings arising are as follows:

Absence Management

The current Managing Attendance Policy and Procedure is available for all staff on the shared network 'MIKE'. The policy is currently under review and the revised policy provides

a much clearer, more robust process for managing staff sickness absence and templates for formally recording meetings held. The policy should assist managers in supporting employees in their return to work and ensuring all key steps are taken in a timely manner.

HR maintains information on recorded sickness absences on an absence management system. Monthly sickness absence reports are received from service areas and reconciled to absence records and supporting evidence. A sample of monthly absence returns was reviewed and all except one absence was found to be recorded accurately on the system. The one case had already been identified by the HR and is being addressed.

The Managing Attendance policy includes definitions of sickness absence and contains guidance on management action in regards to short and long-term sickness cases. A sample of employee absences was reviewed and in all cases, including short and long term absences, actions had been taken to address and monitor absence in line with the existing policy requirements. Since procedures for addressing sickness absence will be changing under the new policy, line managers should receive training to ensure sickness absence is handled in line with the new requirements. Return to work procedures were also reviewed and in testing of a sample of absence cases, in all except one case evidence of the return to work interview was held and self-certification forms had been completed by the line manager and the employee.

Testing of a sample of flexi time sheets confirmed that in all cases selected 100% of sickness absences had been recorded on the absence management system. The Annual Leave Policy and Procedure as well as Flexible Working Hours Scheme are available to all staff. In sample testing, in 87% of cases the annual leave cards were readily available to confirm these were completed for the period of the absence and approved by the relevant Manager – in the remaining cases the cards were not available at the time of audit. In the majority of cases the flexi time sheets were completed accurately and in line with the procedures whilst some had minor administrative errors.

The latest Q4 figures were reported to Corporate Committee in July 2018 and stated 1.4 days lost per full time employee. However, it was noted that quarterly performance is being reported against the annual target of 5 days, making this appear as good performance when, in fact, as a quarterly figure this is poor performance against target.

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	●

Travel Expenses

The Reimbursement of Expenditure Policy sets out the Council's rules on how employees can claim for travel expenses incurred in the performance of their duties for the Council and is available for all staff on the shared network 'MIKE'. However, the policy lacks clarity around out of hours travel claims and tax implications.



To claim for expenditure incurred driving on Council business, employees are required to set out the distance of the journey undertaken on the expenses claim form. Audit review focused on travel claims submitted since April 2018 as a reminder regarding travel expenses had been issued to all staff in April 2018 reminding staff of the recently reviewed Reimbursement of Expenditure Policy. Review of a sample of travel claims demonstrated that consistent documentation for recording travel claims had been used. However, the testing of travel claims revealed cases where home to work mileage had not been deducted when required. These errors were not picked up by the line managers when reviewing the travel claims. Furthermore, one case was noted where a travel claim was approved by the manager who did not have the authorisation to sign off travel claims. Managers and administrators should pay extra attention when reviewing individual travel claims to identify any inconsistencies and spot any potential non-compliance.

Staff can also request rail travel using a Rail Travel form which is available for all staff on shared network 'MIKE'. Review of a sample of ten rail travel claims demonstrated that the rail travel claim form was consistently used for booking rail journeys. The evidence of manager review and authorisation was evident and supporting evidence such as rail tickets were retained and available for review.

The rates used to pay for employee mileage at MBC are superior to the HMRC approved mileage rates (AMRs) hence the amount paid in excess of the AMR is subject to tax. It was confirmed that the tax on these additional rates, as employee benefits, is paid through payroll.

Review of the essential car user scheme confirmed there is no set criteria established to determine who can be classed as an essential car user. Further analysis on essential car users revealed a potential additional cost of £50k over the last twelve months where users were paid the essential car user rate plus the lump sum instead of the standard casual rates. It is the auditor's opinion that a set criteria for essential car user scheme should be defined and essential car users must be regularly reassessed against the set criteria.

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 ●
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Debt Management (consultancy)

A review of policies and procedures in relation to debt recovery confirms that whilst there is a framework in place, policies are out of date and require modernising. Once the policy update has been completed, awareness and training should be delivered to highlight and clarify the debt recovery arrangements and responsibilities.

Testing of the debt recovery process found that whilst the council tax, housing rents and NDR recovery processes appear fit for purpose, sundry debt recovery is less effective.

Roles and responsibilities are covered within Financial Procedure Rules and the Corporate Debt Policy, however there is a lack of clear ownership and responsibility taken for sundry debtors, and a strategy of incentivising service areas and ensuring escalation, if non response is persistent, should increase debt recovery efficiency.

Debt write off arrangements are in place, however additional information on the recovery action taken should be entered onto the write off referral sheets to ensure that approvers are sufficiently aware of recovery actions taken before they are signed off.

Review of re-occurring debtors found a number of areas where pre-payment and direct debit optimisation could be used to make debt recovery more efficient.

Benchmarking of local taxes, housing rent arrears and sundry debt was undertaken with other Leicestershire districts to compare and contrast the Council's current debt position. Based on this analysis, other than council tax collection, the Council is currently under-performing against the comparator group.

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

2.6 Are clients progressing audit recommendations with appropriate urgency?

Since the last Committee meeting, eight actions from audit reports have been completed by officers. At the date of reporting, there are 17 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 3. There is one action which was assessed as 'High' priority which has been overdue for more than three months – 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												
Code of Corporate Governance	4	4						●	N/A			
General Data Protection Regulation (GDPR)	12	9.7					●					
FOI and EIR	10	0.8		●								
Right to Buy	5	1.1			●							
Council Tax Support	12	-	●									
Procurement compliance	10	-	●									
Risk Management	10	-	●									
Key Corporate Controls & Policies												
Key Financial Controls	15	-		●								
IR35	10	10						●	Limited 	Limited 	Moderate 	

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	3	2.6	
Committee Work, Support & Annual Report	15	6.2	
Recommendation Follow-Up	3	1.7	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	3.9	
Internal Audit Management & Development	21	3.5	




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	3	-	-
Communication during Assignments	-	-	5	-	-
Quality of Reporting	-	-	5	-	-
Quality of Recommendations	-	-	5	-	-
Total	1	1	18	-	-

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	-	-	7	37%	1	20%	8	32%
Actions due within last 3 months, but <u>not implemented</u>	-	-	4	21%	1	20%	5	20%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	100%	8	42%	3	60%	12	48%
Totals	1	100%	19	100%	5	100%	25	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
Benefits 2017/18	Revenues and Benefits	Ensure sufficient resources and priority is allocated to overpayment recovery	Interim Revenues and Benefits Manager to consider the business case for further resourcing in this area.	Housing and Communities Manager	31/05/2018	31/12/2018

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.