



**MELTON BOROUGH COUNCIL**

**INTERNAL AUDIT UPDATE**

**FEBRUARY 2019**

**Date: 5<sup>th</sup> February 2019**

## ***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, 82% 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 the majority of 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 95% 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, two further final reports have been issued for assignments from the 2018/19 Internal Audit Plan. The key findings arising are as follows:

#### Business Continuity and Emergency Planning

Effective business continuity and emergency planning is an essential component of the Council's overall governance arrangements to ensure the resilience of all key services in the

event of a major incident. The Council also has a legal responsibility under the Civil Contingencies Act 2004 for maintaining plans to help prevent, control and manage emergencies.

Based on Internal Audit's review the Council has an effective and clearly documented Major Incident Plan in place which is regularly reviewed and tested through the local resilience forum. Clear arrangements are in place to make the public aware of civil protection matters and arrangements for regular risk assessments are in place to support the established community risk register. Test exercises are completed bi-annually and used to refine and update the plans and lessons learned are formally recorded.

The Council undertakes annual Business Impact Analysis exercises to inform the production and development of the Business Continuity Plan. The content of the business continuity plan is detailed and clear but could be made more user friendly if a simpler format was used and key contact lists were updated. In addition, there is opportunity to further strengthen the plan by undertaking some comparison against the corporate risk register and ensuring mitigations are more detailed and specific, with nominated officers and target completion dates.

Internal Audit review of a sample of mitigating controls confirmed that all were operating effectively. However, there are no formal arrangements for periodic testing of the business continuity plan. This increases the risk that plans may not operate effectively in the event of a real incident.

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

Assurance Opinion		
<b>Control environment</b>	Good	●
<b>Compliance</b>	Satisfactory	●
<b>Organisational impact</b>	Minor	●

#### General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR) came into force on 25<sup>th</sup> May 2018. Whilst many of the GDPR's main concepts and principles are consistent with those detailed within the former Data Protection Act 1998, the GDPR does include new elements and significant enhancements, with greater emphasis on the documentation that data controllers must keep to demonstrate their accountability.

The Council has identified what personal data it holds and determined how it is processed; such information is held within the Council's information asset register and Record of Processing Activity (ROPA). Policies in relation to GDPR are available to all staff, and whilst these have been approved by the Senior Management Team (SMT), it is noted that the policies have not yet been formally approved at committee level.




The Council refers to the latest retention and disposal guidance provided by the Local Government Association (LGA). Whilst the Council can demonstrate that good progress has been made in relation to records management, further work is required to provide assurance that all personal data is being held, and disposed of in accordance with agreed policy and procedures; and the requirements of the GDPR.

Privacy notices include matters in relation to the Council’s lawful basis for processing personal data and a review of existing consents and consent mechanisms has been undertaken. Some areas for improvement have been identified with regards to processing special category data and the means used to obtain consent.

Robust systems and procedures exist to detect; report; and investigate a personal data breach and whilst the policy and procedures in relation to subject access requests require updating. Sample testing of cases since May 2018 identified 100% compliance with key controls in both handling of data breaches and the processing of subject access requests.

The Council has appointed a suitably experienced and qualified Data Protection Officer (DPO), and it is understood that monitoring arrangements are currently under review. A review identified that only 33% of staff have completed online training, whilst only 25% of Members have attended in-house training. It is noted that the Council and all Members are registered with the Information Commissioner’s Office (ICO).

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

Assurance Opinion		
<b>Control environment</b>	Satisfactory	
<b>Compliance</b>	Good	
<b>Organisational impact</b>	Minor	

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, 14 actions from audit reports have been completed by officers. At the date of reporting, there are 19 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.



Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
IR35	10	10						●	Limited ●	Limited ●	Moderate ●	
Debt Management (consultancy)	10	10						●	N/A			
Travel Expense Claims	7	8.9						●	Satisfactory ●	Satisfactory ●	Moderate ●	
Business Continuity Management & Emergency Planning	10	10.4						●	Good ●	Satisfactory ●	Minor ●	See section 2.5
Absence Management	12	12						●	Good ●	Good ●	Minor ●	
Corporate Objective: Place												
Beckmill Court Regeneration Project	10	13						●	Satisfactory ●	Limited ●	Moderate ●	
Gretton Court	0	0.3										Cancelled
Housing Repairs	15	9.5					●					
Environmental Health	15	13.7					●					




Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Corporate Objective: People												
Safeguarding	11	-		●								

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	3	2.6	
Committee Work, Support & Annual Report	15	7.8	
Recommendation Follow-Up	3	2.1	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	6.9	
Internal Audit Management & Development	21	7.9	

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
<b>Substantial</b> ●	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.
<b>Good</b> ●	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.
<b>Satisfactory</b> ●	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.
<b>Limited</b> ●	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.
<b>No</b> ●	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		Definition
<b>Major</b>		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.
<b>Moderate</b>		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.
<b>Minor</b>		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
<b>High</b>		Action is imperative to ensure that the objectives for the area under review are met.
<b>Medium</b>		Requires actions to avoid exposure to significant risks in achieving objectives for the area.
<b>Low</b>		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.

<b>Aspects of Audit Assignments</b>	<b>N/A</b>	<b>Outstanding</b>	<b>Good</b>	<b>Satisfactory</b>	<b>Poor</b>
Design of Assignment	1	2	5	-	-
Communication during Assignments	-	1	7	-	-
Quality of Reporting	-	1	7	-	-
Quality of Recommendations	-	-	6	1	-
<b>Total</b>	<b>1</b>	<b>4</b>	<b>25</b>	<b>1</b>	<b>-</b>

**Appendix 3: Implementation of Audit Recommendations**

	'High' priority recommendations		'Medium' priority recommendations		'Low' priority recommendations		Total		Breakdown by service area
	Number	% of total	Number	% of total	Number	% of total	Number	% of total	
Actions due and <b>implemented</b> since last Committee meeting	-	-	11	44%	3	50%	14	42%	<b>79% Corporate</b> <b>14% Legal &amp; Democratic</b> <b>7% People</b>
Actions due within last 3 months, but <b>not implemented</b>	1	50%	6	24%	-	-	7	21%	<b>100% Corporate</b>
Actions due <b>over 3 months</b> ago, but <b>not implemented</b>	1	50%	8	32%	3	50%	12	37%	<b>17% Corporate</b> <b>17% Growth &amp; Regeneration</b> <b>17% Legal &amp; Democratic</b> <b>50% People</b>
Totals	2	100%	25	100%	6	100%	33	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	The service manager has advised that this action has been completed – Internal Audit are awaiting evidence to enable the action to be closed.	Housing and Communities Manager	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.