LGSS

MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

MARCH 2019

Date**: 26th March 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, 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 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 48, 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:

Housing repairs

The housing repairs service directly supports a number of the Council's key priorities, including increasing the availability of good quality homes and delivering quality services to

local residents. The Council has approximately 1,800 homes and spends over £1 million per year on planned and responsive repairs and maintenance. The Council recently awarded a new housing repairs contract on a Price per Property (PPP) and Price per Void (PPV) basis to Axis Europe Plc, commencing on 1st October 2018 for a duration of five years with the option to extend the contract for up to five further years. A full audit of the new contract will be considered for inclusion in the 2019/20 internal audit plan after the contract has been operational for a reasonable period of time. In the meantime, management has requested a review of the arrangements for raising and managing repair orders and ensuring a good quality of service is provided to tenants. The audit has focused primarily on responsive repairs.

A sound control framework has been specified for managing the contract and ensuring timely completion of good quality repairs. This includes good proposed tenant communication arrangements. However, at the time of commencement of this audit the new contract had only been operational for a few weeks and some arrangements had not been fully implemented. For example, work is ongoing to complete the IT interfaces necessary to support direct access to the contractor's appointment scheduling system. Furthermore, performance monitoring and reporting regimes and post-repair inspection arrangements have not yet been fully implemented. As such, it is too early at this stage to draw any firm conclusions about compliance with controls or the overall efficiency and effectiveness of the Council's arrangements. This issue will be revisited as part of next year's audit, in the meantime it is recommended that officers prepare a prioritised action plan or issues log to ensure that all outstanding matters associated with the new contract are captured and resolved in a manged and timely manner.

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	Satisfactory	🟡
Organisational impact	Moderate	🟡

Environmental Health

Environmental health services directly support a number of the Council's corporate priorities, including achieving a clean and attractive local environment and delivering quality services to businesses and residents. It also contributes to key corporate projects such as *Shaping the Future for Melton*. Environmental health covers a wide range of functions, including the promotion of food hygiene and safety, improvement of housing conditions, dog control, contaminated land, occupational health and safety together with a number of licensing and environmental protection/pollution activities.

There is a good mix of skills and experience within the Environmental Health team and all members of staff have a clear understanding of service objectives and priorities. However, limited resources and an increasing number of complaints and service requests means that a disproportionate amount of time is spent on lower priority reactive work at the expense of planned inspections. Strengthening demand management and setting realistic, risk based service standards for reactive work would help to address this issue. The development of more formal arrangements for monitoring staff and team productivity would improve operational oversight and support future management decisions on resource allocation.

Performance management and reporting is generally sound but would benefit from the development of more performance indicators and targets to provide a comprehensive picture of activity and outcomes. Moreover, the retention of supporting evidence would improve the audit trail and provide assurance over the accuracy of reported performance levels.

Internal Audit is aware that a separate planning service review has recently been completed. When considering this report, management should consider possible synergies between these reviews as both relate to the same service department.

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	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, six 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 are two actions which were assessed as 'High' priority and have 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	11.9						🔵	**Satisfactory** 🟡	**Good** 🟢	**Minor** 🟢	
FOI and EIR	10	3.7			🔵							
Right to Buy	5	4.1			🔵							
Council Tax Support	12	3.5			🔵							
Procurement compliance	10	4.5				🔵						
Risk Management	10	1.4			🔵							
Key Corporate Controls & Policies												
Key Financial Controls	15	3.7			🔵							

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 🟢	
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	10						🔵	Good 🟢	Satisfactory 🟡	Moderate 🟡	See section 2.5
Environmental Health	15	13.9						🔵	Satisfactory 🟡	Satisfactory 🟡	Minor 🟢	See section 2.5

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	1.5			●							

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	3	3	
Committee Work, Support & Annual Report	15	9.9	
Recommendation Follow-Up	3	2.9	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	9.7	
Internal Audit Management & Development	21	10.9	

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
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	2	5	-	-
Communication during Assignments	-	1	7	-	-
Quality of Reporting	-	1	7	-	-
Quality of Recommendations	-	-	6	1	-
Total	**1**	**4**	**25**	**1**	**-**

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 **implemented** since last Committee meeting	-	-	3	%	3	%	6	%	**33% Corporate** **33% Legal & Democratic** **33% People & Communities**
Actions due within last 3 months, but **not implemented**	2	50%	5	24%	-	-	7	%	**57% Corporate** **14% Legal & Democratic** **29% Growth & Regeneration**
Actions due **over 3 months** ago, but **not implemented**	2	50%	10	32%	-	-	12	%	**25% Corporate** **42% Growth & Regeneration** **33% People**
Totals	4	100%	18	100%	3	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 resource is in place regarding overpayment recovery. This will be incorporated into the full structure in April/May 2019, with the development of a full recovery unit across revenues and benefits.	Housing and Communities Manager	31/05/2018	May 2019
Travel expenses 2018/19	Corporate Services	Issue additional guidance to staff and managers and address cases of non-compliance	Guidance has been written however the new payroll system and the self-service facility may not support the process described in the guidance. Waiting for more information from Leicester City on the new process for submitting mileage claim before rolling out wider.	HR and Comms Manager	30/11/2018	May 2019

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.