



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2019

Date: 24th September 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 2019/20 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 2019/20 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 2020.

At the time of reporting, 44% of the Audit Plan is either complete or in progress. The Internal Audit team is on track for delivery of the plan by the end of the financial year.

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 22, 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?

At the time of reporting, two audits from the 2019/20 audit plan have been finalised. The key findings arising are as follows:




Assets of Community Value

The Community Right to Bid came into force in 2012 and gives communities a right to identify a building or land that is believed to be of value to their social interests or social wellbeing. It gives the community a fair chance to make a bid to buy the property on the open market should the owner decide to sell. Only eligible community groups, local parish councils or local neighbourhood planning forums and charities can nominate.

The Council's policy and procedures were revised in April 2018 to strengthen the decision making process. Management requested this review to provide independent assurance that the revised processes are operating effectively and efficiently.

Based on discussion with officers and review of the relevant documentation, the current system and procedures are consistent with legislative requirements and provide a sound framework to reduce the risk of poor or untimely decisions. There is scope to strengthen arrangements further by reviewing the panel process and providing additional guidance and information to those wishing to make a nomination. Moreover, the published register of assets needs updating to correct a number of omissions and case documentation and recording could be significantly improved.

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	Minor 

Case Management – Intensive Housing Management Service

In 2015 Leicestershire County Council withdrew financial support for Housing Related Support Services in Melton. The Council decided that it wanted to continue providing support to local residents and embarked on a project to re-design the service and develop a new model of Intensive Housing Management (IHM), largely funded through charges to service users together with a contribution from the Housing Revenue Account (HRA) capped at £30k. It should be noted that there have been major staffing and organisational changes since 2015 and none of the senior managers involved in the initial development and design of the current IHM service are still working for the Council.

Based on interviews and review of documentation, there is no clear service plan or specification setting out the services provided or expected outcomes. Staff within the IHM team are committed and conscientious but the lack of a clear service plan, operational procedures or robust performance monitoring makes it difficult to demonstrate that the




Council is delivering an efficient and effective service. The IHM team provides a broad range of support services to over 500 residents covering both tenancy and welfare related matters. However, supervision and management is relatively light-touch and there is no evidence of any formal assessment of workload or resources to ensure sufficient capacity and skills are available to deliver the service to an appropriate and consistent standard.

Case records are largely paper based although plans are in place to migrate all records to the ECINS case management system in future. All welfare visits, incidents and tenancy issue are recorded in note form but there is no standard or systematic approach to needs assessment, support planning or case review. IHM records are not included in the corporate information asset register and there is no evidence of a formal approach to document retention.

Gross costs have increased by over 27% since the IHM service was introduced in 2015, although overall expenditure has remained within budget and the HRA contribution cap has not been exceeded. For the 2019/20 budget, net costs have increased to £42k but the HRA cap has been achieved after £29k recharges to the General Fund. The rationale or basis of these recharges has not been explained.

A number of recommendations have been made to address the individual issues identified in this audit, although a more fundamental service review may be preferred to revisit the initial project in the light of current priorities and related service developments. The action plan in this report could then be used to inform the service review project.

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	Satisfactory 
Organisational impact	Moderate 

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?

Since the start of the new financial year, 33 actions from audit reports have been completed by officers. At the date of reporting, there are 20 agreed management actions which are overdue for implementation. An analysis of the implementation of actions is provided in Appendix 3. There are four actions which were assessed as 'High' priority which 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												
Procurement compliance	6	-	●									
Social housing fraud (consultancy support)	5	1.5			●							
Key Corporate Controls & Policies												
Key Financial Controls	15	-	●									
Complaints and compliments management	12	0.9			●							
Assets of Community Value	12	11.9						●	Good 	Satisfactory 	Minor 	See section 2.5
Licensing enforcement	12	-	●									
Website management (consultancy support)	10	1.2			●							
Establishment changes	7	3.7			●							

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Corporate Objective: Place												
Management of capital projects	15	-	●									
S106 monitoring	12	8.7					●					
Landlord health and safety	15	14					●					
Housing repairs	15	-	●									
Contractor health and safety	12	0.1			●							
Environmental maintenance (consultancy support)	10	-	●									
Corporate Objective: People												
Effectiveness of case management arrangements	12	14.3						●	Limited ●	Satisfactory ●	Moderate ●	See section 2.5 and Appendix B
Homelessness Reduction Act	10	-		●								

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	3	0.3	
Committee Work, Support & Annual Report	15	2.7	
Recommendation Follow-Up	3	1.3	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	3.9	
Internal Audit Management & Development	21	4.1	




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		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	3	-	-
Communication during Assignments	-	2	2	-	-
Quality of Reporting	-	2	2	-	-
Quality of Recommendations	1	-	3	-	-
Total	1	5	10	-	-

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	2	22%	20	67%	11	79%	33	62%
Actions due within last 3 months, but not implemented	3	33%	4	13%	2	14%	9	17%
Actions due over 3 months ago, but not implemented	4	45%	6	20%	1	7%	11	21%
Totals	9	100%	30	100%	14	100%	53	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	-
Beckmill Court 2018/19	Growth and Regeneration	Develop robust document management and filing for future projects	This project is now complete, but the learnings from this audit needs to be applied to all new projects starting within the Assets team. A project and programme officer has been appointed in the corporate improvement team to help various teams across the organisation with project management. No new capital project has started since the completion of Beckmill Court project. The Assets service manager will work with the corporate improvement team to adopt the corporate approach to document management and filing system for all capital projects.	Director of Growth & Regeneration	31/10/2018	30/09/2019
Travel expense claims 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. Testing of system is ongoing.	HR and Communications Manager	30/11/2018	30/09/2019
Business Continuity Management 2018/19	Cross cutting	Regular testing of Business Continuity Plans	Test has been scheduled – action to be closed once completed.	Assistant Director for Strategic Planning and Regulatory Services	31/03/2019	30/10/2019

Appendix 5: Limitations and Responsibilities

Limitations inherent to the internal auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Standards 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 Internal Audit 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 Internal Audit's attention. As a consequence, the Audit and Standards 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 Internal Audit'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.

Internal Audit 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.