



MELTON BOROUGH COUNCIL

INTERNAL AUDIT UPDATE

NOVEMBER 2019

Date: 19th November 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, 63% 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 30, 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, three further audits from the 2019/20 audit plan have been finalised. The key findings arising are as follows:

Establishment changes

Melton Borough Council (MBC) operates under an approved establishment of staffing levels. Changes to the establishment can be made under delegation through the Chief Executive in consultation with the Senior Leadership Team or as a result of projects or restructure. Robust establishment control processes help the Council to control its salary expenditure by ensuring that any changes, additions or deletions to posts follow a documented authorisation process and feed directly into budget monitoring.

Establishment change requests must be made by the completion of an establishment control form. This is to enable the monitoring of all changes and to ensure that the organisational structure is recorded correctly on the current establishment database. However, audit sample testing identified some cases where managers had not completed and submitted the establishment control form to the HR team. Also it was highlighted that the establishment control form and the associated procedures are not currently available to managers on the shared network, MIKE.

To establish if the Council services are operating within the approved management structures and budgets a sample of roles were selected from the latest establishment list. The review of a sample of roles noted on the establishment demonstrated that appropriate approvals had been obtained and evidence of such approvals was available in all cases.

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	●

S106 Monitoring

Section 106 (s106) planning obligations are legal agreements formed between the Council and developers as part of the planning application process. The agreements help make development proposals acceptable when they might otherwise be unacceptable, in planning terms, providing infrastructure and benefits to the community.

A monitoring spreadsheet has been set up to monitor s106 agreements and the associated trigger points. Testing, however, determined scope for improvement in ensuring that all necessary information is added onto the monitoring database and that the monitoring spreadsheet is kept up to date with the status of agreements.

Initial review of s106 monitoring records determined that no active trigger monitoring is taking place at the Council. The Council is placing reliance on the developers to comply with the s106 obligations and pay the agreed contributions when trigger points are met. A review of a sample of s106 agreements and associated trigger points and contributions noted two cases where the trigger had been met but no contributions were yet received.

Reports on contribution balances held are presented by the Assistant Director of Planning and Regulatory Services to Senior Leadership Team (SLT). This helps to ensure all services areas are aware of balances held and appropriate use is made of the funds. However, the reports have been irregular and quarterly frequency should be reinstated.

The government recommends that local authorities prepare an infrastructure funding statement that sets out section 106 planning obligations, anticipated funding from developer contributions, and the choices local authorities have made about how these contributions will be used. The first annual infrastructure funding statement must be published by 31st December 2020. Lack of detail in the monitoring database and lack of effective communication channels identified during the audit may pose a challenge for the preparation of an accurate infrastructure statement.

It was confirmed that at the time of audit the Council has not had any claw backs of contributions due to inappropriate spend or failure to spend before expiry date.

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	●

Landlord Health and Safety

The full report for this audit is provided as Appendix B, due to the assurance opinions given.

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	Major 
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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 last committee meeting, 14 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 three 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	3.8										
Assets of Community Value	12	11.9							Good 	Satisfactory 	Minor 	
Licensing enforcement	12	-										
Website management (consultancy support)	10	1.2										
Establishment changes	7	6.5							Good 	Good 	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: Place												
Management of capital projects	15	-	●									
S106 monitoring	12	10.9						●	Satisfactory ●	Satisfactory ●	Moderate ●	See section 2.5
Landlord health and safety	15	15.3						●	Limited ●	Limited ●	Major ●	See section 2.5 and Appendix B
Housing repairs	15	0.3			●							
Contractor health and safety	12	2.3			●							
Environmental maintenance (consultancy support)	10	-		●								
Corporate Objective: People												
Effectiveness of case management arrangements	12	14.3						●	Limited ●	Satisfactory ●	Moderate ●	
Homelessness Reduction Act	10	2.5			●							

Assignment	Budget	Actual	Comments
Other Client Support			
Advice & Assistance	3	1.7	
Committee Work, Support & Annual Report	15	4.7	
Recommendation Follow-Up	3	2.1	
Client Meetings, AGS/NFI & External Audit, Audit Planning	15	5.1	
Internal Audit Management & Development	21	6.2	




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	3	38%	3	27%	8	53%	14	41%
Actions due within last 3 months, but <u>not implemented</u>	2	24%	2	18%	4	27%	8	24%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	3	38%	6	55%	3	20%	12	35%
Totals	8	100%	11	100%	15	100%	34	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
Beckmill Court 2018/19	Growth and Regeneration	Develop robust document management and filing for future projects	<p>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.</p> <p>The Document Management System has been upgraded by the Corporate Improvement Team. Officers are currently dealing with some issues raised from this, but all relevant teams are aware of the current situation.</p>	Director of Growth & Regeneration	31/10/2018	31/12/2019
Travel expense claims 2018/19	Corporate services	Issue additional guidance to staff and managers and address cases of non-compliance	Still testing the new self-service. Amendments have been made to the system so looking to roll out with guidance before the end of the year.	HR and Communications Manager	30/11/2018	31/12/2019
Business Continuity Management 2018/19	Cross cutting	Regular testing of Business Continuity Plans	Testing had been scheduled for October 2019 but had to be postponed due to emergency situation (flooding). Revised date yet to be confirmed.	Assistant Director for Strategic Planning and	31/03/2019	TBC

Audit Title and Year	Service Area	Issue / Outstanding Action	Update and reason for revised implementation timescale	Officer Responsible	Original Date	Revised Date
				Regulatory Services		

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.