RUTLAND COUNTY COUNCIL

INTERNAL AUDIT UPDATE

SEPTEMBER 2013

Date: 24th Septembers 2013

Introduction

1.1   The Welland Internal Audit Consortium provides the internal audit service for Rutland County Council and has been commissioned to provide 370 audit days to deliver the 2013/14 Annual Audit Plan.

1.2   The Public Sector Internal Audit Standards (the Standards) require the Audit & Risk Committee to scrutinise the performance of the Internal Audit Team and – of equal significance – 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 the information, on progress in delivering planned work and on performance of the Consortium, which it requires to engage in effective scrutiny.

Progress with the Annual Audit Plan & Internal Audit Performance

2.1   At the date of reporting two draft reports have been issued in respect of: Council Tax Fraud and the management of the annual National Fraud Initiative. Work is in progress on a further six planned audits. Appendix 2 to this report shows the assurance that the work in hand seeks to provide: it is intended that this Appendix will be developed into a key aid to the Committee as it assesses the range and adequacy of the assurance offered by the Consortium's work and determines whether there is a need for additional – or different assurance.

2.2   Relevant Performance Indicators have been developed to provide the Committee with an objective basis upon which to assess the performance and effectiveness of the Consortium. Table 1 shows performance against targets as at week 20 (16th August 2013) the latest date practical to allow consistent reporting for this cycle to all the Consortium's clients. At this point in the year the data available is limited but the intention is to put in place a standard template to allow for ready tracking of performance over time.

Table 1	PERFORMANCE TARGETS 2013/14		
Ref	Indicator	Target	Current Performance
IA1	Chargeable Days	90%	92% @ week 20
IA2	Audits within Budget	90%	N/A Calculated @ final report
IA3	Audits on Time	90%	N/A Calculated @ final report
IA4	Customer Satisfaction	3.6	N/A
IA5	Recommendations Implemented	90%	N/A
IA6	Delivery of Planned Work	100%	N/A year end indicator

Revisions to the Annual Audit Plan

3.1   At the last meeting of the Committee. Members required that the Agreed Annual Plan be modified to provide more assurance about key financial systems, contract management and Human Resources. The inclusion of those additional audits removed the justification for a number of assignments in the original Plan and it is proposed that these be deleted.

3.2   Alternative sources of assurance have now been identified in respect to planned assignments on Risk Management and Penetration Testing. It has also been confirmed that a new contract for the provision of Building Control Services will come into effect on 1st April 2014. It is therefore proposed that these assignments too should be deleted from the Plan.

3.3   It is anticipated that the revisions identified in 3.1 and 3.2 above would bring planned assignments broadly into line with resources available. However, the implementation of the Internal Audit Improvement Plan referred to in report 217/2013 to this Committee will lead to some increase in the time required for planned assignments. To accommodate this, it is proposed that two lower priority assignments be deferred to 2014/15.

3.4   The revised Annual Audit Plan is shown at Appendix 3 while Appendix 4 summarises the revisions made and the justifications for making them. The Plan currently shows the budgets for those assignments for which Terms of Reference have been agreed. An exercise is now in hand to produce Terms of Reference and budgets for all commissioned assignments so that remaining assignments can be prioritised and scheduled.

3.5   The Standards require that the Committee approve any requests to carry out consultancy work not included in the Annual Plan. The Consortium has been commissioned to carry out a review of the records maintained by various providers of free nursery education for three to four year olds to support claims for payment under the Early Years Single Funding Formula. The work requested will not provide direct assurance about the Council's own control arrangements but will provide assurance about the accuracy and legitimacy of claims for payment received, which are budgeted to amount to some £1.2 million in 2013/14. It is estimated that the work requested will occupy about 6 days and since there is no contingency allowance for consultancy work, Member approval would involve the deferral or cancellation of a planned assignment.

Appendix 1: 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 Audit & Risk 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 Audit & Risk 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.

Appendix 2: Work in Progress - Development of Assurance for 2013/14

Assignment	Assurance Sought	Status	Assurance Rating
Fraud Risks			
Council Tax Fraud	Appropriate and effective arrangements are in place to mitigate the Council's Council Tax Fraud risk.	Draft Report	Adequate
Management of National Fraud Initiative	Appropriate and proportionate use is made of the information received from the NFI for the purpose of preventing or detecting fraud. Arrangements for the submission of data to the NFI and for the investigation of the matches generated maximise the benefit to the Council but do not involve an excessive commitment of resources.	Draft Report	N/A (Consultancy Work)
Service Delivery Risks			
Adult Mental Health	All requests for help from clients are correctly identified and transmitted to the appropriate team without delay. The Council can demonstrate that, in each interaction with a client, all mandatory actions are taken and accurately recorded.	Work in Progress	
Blue Badges	Badges are issued only to individuals who can demonstrate legitimate entitlement. Proportionate and effective arrangements are in place to address to risk of fraudulent use. All income due is received and properly accounted for.	Work in Progress	
Food Hygiene	The Shared Service delivers the specified resources. An effective inspection regime mitigated risks to public health.	Work in Progress	
Licensing	The Shared Service delivers the specified resources. All properties requiring licences are licensed and licensing conditions are enforced. All income due is received and properly accounted for.	Work in Progress	
Reablement Service	Limited resources are managed effectively to maximise the number of clients who can continue to live independently rather than moving into residential care.	Work in Progress	

Taxi & Hired Cars	Effective licensing and enforcement arrangements ensure that taxis and hire cars operating in (and from) the County do not pose a risk either to customers or to other road users. All income due is received and properly accounted for.	Work in Progress	
ICT Risks			
Disaster Recovery; IT Business Continuity; Data Backup	The Council's electronic data is stored securely under conditions that allow for the timely resumption of services following any major incident.	The necessary testing schedules have been delivered by the ICT Audit Contractor	
New Projects – including software acquisition; Project Methodology	Appropriate arrangements are in place to ensure that ICT procurement delivers the outcomes required within budget and on time	The necessary testing schedules have been delivered by the ICT Audit Contractor	
IT Service Desk; Asset Register; Software Licences	The Council uses only appropriately licensed software. The ICT Asset Register is up to date and records assets accurately and completely. The Service Desk addresses customers' needs in compliance with defined policies and standards.	The necessary testing schedules have been delivered by the ICT Audit Contractor	

Notes

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 might expect to receive.

Significant	There is a sound control framework designed to manage or mitigate risks to the achievement of defined objectives. Testing confirms that the controls are being applied consistently.
Adequate	The control framework is basically sound but either • there are minor gaps or weaknesses which mean that some risks are not fully managed or mitigated; or • testing provides evidence of non-compliance sufficient to weaken the effect of some controls.
Marginal	Either • the designed framework of controls would, if operated consistently manage or mitigate identified risks but testing demonstrates significant levels of non-compliance with prescribed processes and procedures; or • although the designed framework has material limitations, testing provides evidence of consistently high levels of compliance with prescribed processes and procedures.
Limited	There are significant weaknesses in key elements of the control framework which mean that significant risks are not managed or mitigated. Testing demonstrates significant levels of non-compliance with prescribed processes and procedures
No	The controls identified are not sufficient to manage/mitigate identified risks to the achievement of defined objectives. Testing demonstrates high levels of non-compliance with prescribed processes and procedures.

Appendix 3: Revised Audit Plan 2013/14

Assignment	Rationale	Budget
Financial Risks		**80 days**
Managing Capital Budgets	Operational Director - Places requested an assignment to provide assurance for the Scrutiny Committees	
Community Care Finance	Unfinished policy development – assurance sought in respect of legitimacy of disability related expenditure and proper accounting for public money.	
New Benefit Arrangements	Need for early assurance about locally prescribed arrangements: budgetary control; consistent application of discretion; issues of avoidance; collection of small sums billed.	
New Local Tax Arrangements		
Payroll & HR Feeder	Identified capacity issues; confirmation that issues identified have been resolved	
Debtors	Committee's requirement for additional assurance about Key Financial Systems	
Creditors		
Main Accounting System		
Treasury Management		

Assignment	Rationale	Budget
ICT Risks		**36 days**
Disaster Recovery; IT Business Continuity; Data Backup	Identified during ICT audit needs assessment carried out in October 2012 with input from Head of Business Support Places, ICT Infrastructure Manager and Service Desk Manager	12 days
New Projects – including software acquisition; Project Methodology		12 Days
IT Service Desk; Asset Register; Software Licences		12 Days
Fraud Risks		**45 days**
Consultancy – Fraud Awareness Training	Provision of training in support of the revised Counter Fraud Strategy.	8 Days
Consultancy – Managing NFI	Recent experience suggests that the Council is not achieving a return from the NFI exercises proportionate to the staff time involved. Given that there remains a statutory requirement to continue to support NFI; work across the Welland sites to identify more efficient working practices might be of benefit.	20 Days
Council Tax Fraud	NFA asserts that the Council had a significant exposure to CT Fraud (£100k to £170k). From 1/4/13 technical reforms will introduce scope for fraud around vacant properties and second homes. Assurance required that the Council understands its likely exposure to fraud and is taking proportionate action to mitigate the risk.	7 Days
Procurement Fraud	NFA asserts that this is the area of the Council's greatest exposure to fraud. (£130-220,000). Given the role of the Welland Procurement Team, the other clients are supporting a cross-Welland exercise	10 days

Assignment	Rationale	Budget
Governance & Performance Risks		**65 Days**
Managing Absence	Follow up to consultancy exercise in 2012/13. To be undertaken in support of management action to enhance control arrangements.	
Data Management – Retention, Protection & Disposal	Issues around control and management of data whether held in electronic or paper format. Links to current "paper lite" project. Note that Information Commissioner has levied penalties in range £60-£90k for breaches involving paper format data. A similar assignment is being undertaken at other Welland sites.	
Contracts and Contract Procedure Rules	Assurance sought by Committee that the new CPR will address Members concerns about tendering and contract management within the People Directorate.	
Human Resources	Assurance sought by Committee. As part of a wider assignment assurance will be sought about the impact of new recruitment guidelines on inherent risks associated with recruitment.	

Assignment	Rationale	Budget
Service Delivery Risks		**80 Days**
Adult Mental Health	Assurance sought about arrangements to ensure that requests for service – however and wherever received - are identified and channelled to an appropriate person without delay or unnecessary interventions. Assurance is also sought about arrangements to ensure that compliance with prescribed processes is evidenced appropriately.	6 Days
Blue Badge Issues	Assurance sought that the Council can demonstrate that badges are issued only to eligible persons; that the records maintained are consistent with the Council's obligations; and that there are appropriate and proportionate monitoring arrangements to prevent badge abuse.	5 Days
Food Hygiene	Assurance sought that the shared service delivers an appropriate programme of inspections covering all relevant premises.	7 days
Licensing Services	Assurance sought about the controls in place to identify premises or activities requiring licenses; to ensure through monitoring and inspections that license holders comply with conditions and operate in a manner that protects public health; and to collect and account for income due.	7 Days
Reablement Service	The Reablement Service seeks through a short period of tailored support to enable suitable clients to remain in their own homes rather than moving into residential care. Assurance sought about the effectiveness of controls to ensure that the service is offered only to appropriate clients; that clients' progress is subject to timely and effective review and evaluation; that appropriate support packages are delivered at the completion of the reablement process; and that available resources are applied effectively.	12 Days
Taxi Licensing	Assurance sought about the effectiveness of arrangements to vet potential license holders and to undertake inspections to ensure safety of service delivered to the public in Rutland.	5 days

Appendix 4: Summary of Revisions to Audit Plan

Changes	Rationale
Financial Risks	
Add: Creditors; Debtors; Main Accounting System; Treasury Management	Committee requirement
Delete: Testing of key controls for KPMG Financial Management	Testing of relevant key controls and necessary assurance about financial management to be derived from the extended coverage of key financial systems.
ICT Risks	
Delete: Penetration Testing	Change in Government requirements made it more practical for IT Infrastructure Manager to commission necessary work directly. The contractor's work will be referred to in the Annual Report of Internal Audit for 2013/14 as an independent source of assurance.
Governance & Performance Risks	
Add: Contract & Contract Procedural Rules Human Resources	Committee requirement
Delete: Single Voter Registration	Committee requirement
Delete: Corporate Compliance	Assurance about compliance issues to be obtained through other planned audits (i.e. Managing Absence; Data Management; Contracts & Contract Procedural Rules; Human Resources; and key financial systems)
Delete: Recruitment	Merged with wider Human Resources audit.
Delete: Risk Management	Risk Management arrangements being reviewed by Director of Resources
Delete: Management of Partnerships	Low priority audit which can be deferred to 2014/15

Changes	Rationale
Service Delivery Risks	
Delete: Building Control	Tendering exercise in hand: new contract to come into effect from 1st April 2014.
Delete: Payments to Voluntary Bodies	Links to Management of Partnerships: low priority audit which can be deferred to 2014/15