



Rutland County Council

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Ladies and Gentlemen,

A meeting of the **AUDIT AND RISK COMMITTEE** will be held in the Council Chamber, Catmose, Oakham on **7th April 2015** commencing at 7.00pm when it is hoped you will be able to attend.

Yours faithfully

Helen Briggs
Chief Executive

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. A protocol on this facility is available at www.rutland.gov.uk/haveyoursay

A G E N D A

APOLOGIES

1. MINUTES

To confirm the minutes of the Audit and Risk Committee held on 20th January 2015.

2. DECLARATIONS OF INTEREST

In accordance with the Regulations, Members are required to declare any personal or prejudicial interests they may have and the nature of those interests in respect of items on this Agenda and/or indicate if Section 106 of the Local Government Finance Act 1992 applies to them.

3. PETITIONS, DEPUTATIONS AND QUESTIONS

To receive any petitions, deputations and questions from Members of the Public in accordance with the provisions of Procedure Rules.

The total time allowed for this item shall be 30 minutes. Petitions, deputations and questions shall be dealt with in the order in which they are received. Questions may also be submitted at short notice by giving a written copy to the Democratic Services Officer 15 minutes before the start of the meeting.

The total time allowed for questions at short notice is 15 minutes out of the total time of 30 minutes. Any petitions, deputations and questions that have been submitted with prior formal notice will take precedence over questions submitted

at short notice. Any questions that are not considered within the time limit shall receive a written response after the meeting and be the subject of a report to the next meeting.

4. EXTERNAL AUDIT – AUDIT PLANNING 2014/15

To receive Report No. 62/2015 from the Director of Resources, Audit Commission/KMPG.
Pages 03 – 29

5. INTERNAL AUDIT UPDATE

To receive Report No. 74/2015 from the Head of WIA Consortium
Pages 30 - 42

6. INTERNAL AUDIT PLAN 2015/16

To receive Report No. 73/2015 from the Head of WIA Consortium
Pages 43 – 50

7. EMERGING ISSUES FOR THE CLOSURE OF ACCOUNTS 2014/15

To receive Report No. 61/2015 from the Director of Resources.
Pages 51 - 53

8. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) QUARTERLY REPORT

To receive Report No. 69/2015 from the Director of Resources.
Pages 54 - 55

9. ANY OTHER URGENT BUSINESS

To receive items of urgent business which have previously been notified to the person presiding.

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DISTRIBUTION

MEMBERS OF THE AUDIT AND RISK COMMITTEE:

Mr E Baines (Chairman)
Mr A S Walters
Mr J Munton
Mr D L Richardson
Mr J M Lammie

ALL CHIEF OFFICERS
MONITORING OFFICER
PUBLIC NOTICEBOARD AT CATMOSE

AUDIT AND RISK COMMITTEE

7 April 2015

EXTERNAL AUDIT – AUDIT PLANNING 2014/15

Report of the Director of Resources

STRATEGIC AIM:	All
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1. PURPOSE OF THE REPORT

1.1 To inform the Committee of the External Audit plan for 2014/15.

2. RECOMMENDATIONS

2.1 That the Committee notes the plan at Appendix A.

3. REASONS FOR THE RECOMMENDATIONS

3.1 To ensure that the Committee is aware of and understands the approach to the external audit for 2014/15.

4. BACKGROUND

4.1 Each year the External Audit produces and agrees with the Council an Audit Plan setting out its approach to the audit of:

- The Council's Statement of Accounts
- Whole of Government Accounts return
- Value for Money

4.2 The plan for the 2014/15 audit is attached at Appendix A to this report. The plan has been updated following planning work by the external auditors. There are no major risk issues identified by the auditors in their work to date which suggests that additional work will be needed. Members should note that the fee has increased slightly to £87,308 (£86,238 2013/14) because of increases in the Audit Commission's scale fee to reflect work required in relation to local Business Rates following the removal of the certification requirement for the NNDR3 return. For 2015/16 the fee reduces to £70,941. This reduction has been achieved by the Audit Commission re-tendering some of the older audit framework contracts.

5. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	Timescales for the audit work have been agreed with the Audit Manager
Viability	Low	There are no direct implications within this report
Finance	Low	The 2014/15 forecast includes the cost of the external

		audit fee.
Profile	Medium	External assessment of the Council's performance attracts interest locally and nationally.
Equality and Diversity	Low	Equality Impact Assessment completed, there are no particular issues from this report.

Background Papers

None

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.



cutting through complexity

External Audit Plan 2014/15

Rutland County
Council

February 2015

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document describes how we will deliver our audit work for Rutland County Council.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Rutland County Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

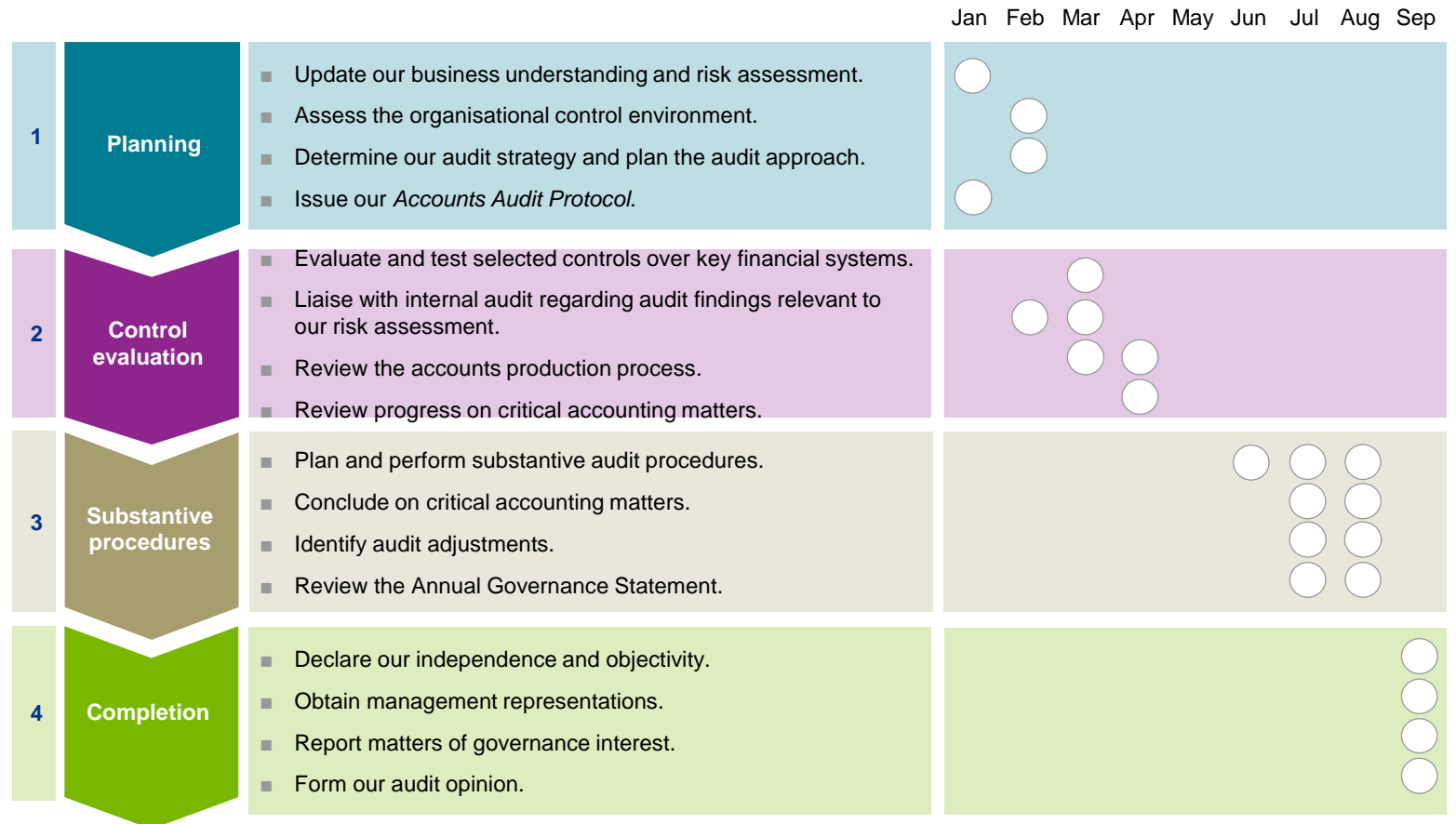
We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Audit approach	<p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the proposed timings for these are similar to previous years.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have not identified any significant risks this year.</p>
VFM audit approach	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
Audit team, deliverables, timeline and fees	<p>We have made one change to your audit team this year, with David Schofield taking over as Assistant Manager.</p> <p>Our main year end audit is currently planned to start In July 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £87,308. This is £1,070 more than the fee set out in our <i>Audit Fee Letter 2014/15</i> and is due to the increase in the Audit Commission's scale fee to reflect work required in relation to local Business Rates following the removal of the certification requirement for the NNDR3 return.</p>

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts audit protocol* following completion of our planning work.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We liaise with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We have met with the Finance Team to discuss mutual learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at £1.1m.

We will report all audit differences over £55k to the Audit and Risk Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £1.1m which equates to around 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) '*Communication with those charged with governance*', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), '*Evaluation of misstatements identified during the audit*', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

In March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit and Risk Committee.

Our on site interim visit will be completed during March 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Liaise with internal audit regarding their controls work relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We liaise with Internal Audit regarding any relevant controls work they have carried out. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Accounts production process

We raised a small number of recommendations in our *ISA 260 Report 2013/14* relating to the accounts production process. We will discuss the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit and Risk Committee.

Our audit approach – substantive procedures

During July to August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit and Risk Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled to start in July 2015. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Assistant Director for Resources prior to reporting to the Audit and Risk Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the finance team on a regular basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit and Risk Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. The deadline for the issue of the Statement has not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

We have received questions from an elector in relation to the proposals for awarding grants/loans for sports & leisure purposes. We have reviewed the issues and reported our findings to the Chief Executive. We will confirm the fee for this work following confirmation by the Audit Commission.

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Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit and Risk Committee. Our deliverables are included on page 16.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Risk Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of February 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

We have identified no significant risks or other key areas of audit focus at this stage.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

Our initial assessment has not identified any risks that are specific to the audit of the Authority's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

We have considered the VFM risks at the initial planning stage of our audit and have not at this stage highlighted the need for any specific VFM work. We are aware of the financial and operational pressures that you are dealing with. At present, we expect to be able to obtain the assurances that we need to fulfil our responsibilities for the VFM conclusion from our standard programme of work. We will continue to discuss the challenges you face with officers and the update the Audit and Risk Committee if any additional specific significant risks are identified which require us to carry out further audit work.

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool ; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report the results of our initial risk assessment and the findings from any further work required to address specific significant risks identified.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>We are aware of the financial and operational pressures that you are dealing with. At present, we consider that we will be able to obtain the assurances that we need to fulfil our responsibilities for the VFM conclusion from our standard programme of work. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Your audit team has been drawn from our specialist public sector assurance department. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Tony Crawley
Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit and Risk Committee and Executive Directors.”



Mike Norman
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Tony Crawley to ensure we add value. I will liaise with Finance team and Internal Audit.



David Schofield
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the finance team and Internal Audit . I will also supervise the work of our audit assistants.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	February 2015
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2015
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2015
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Report to the National Audit Office our findings from the mandated work on the Authority's WGA pack submission. 	September 2015
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2015

We will be in continuous dialogue with you throughout the audit.

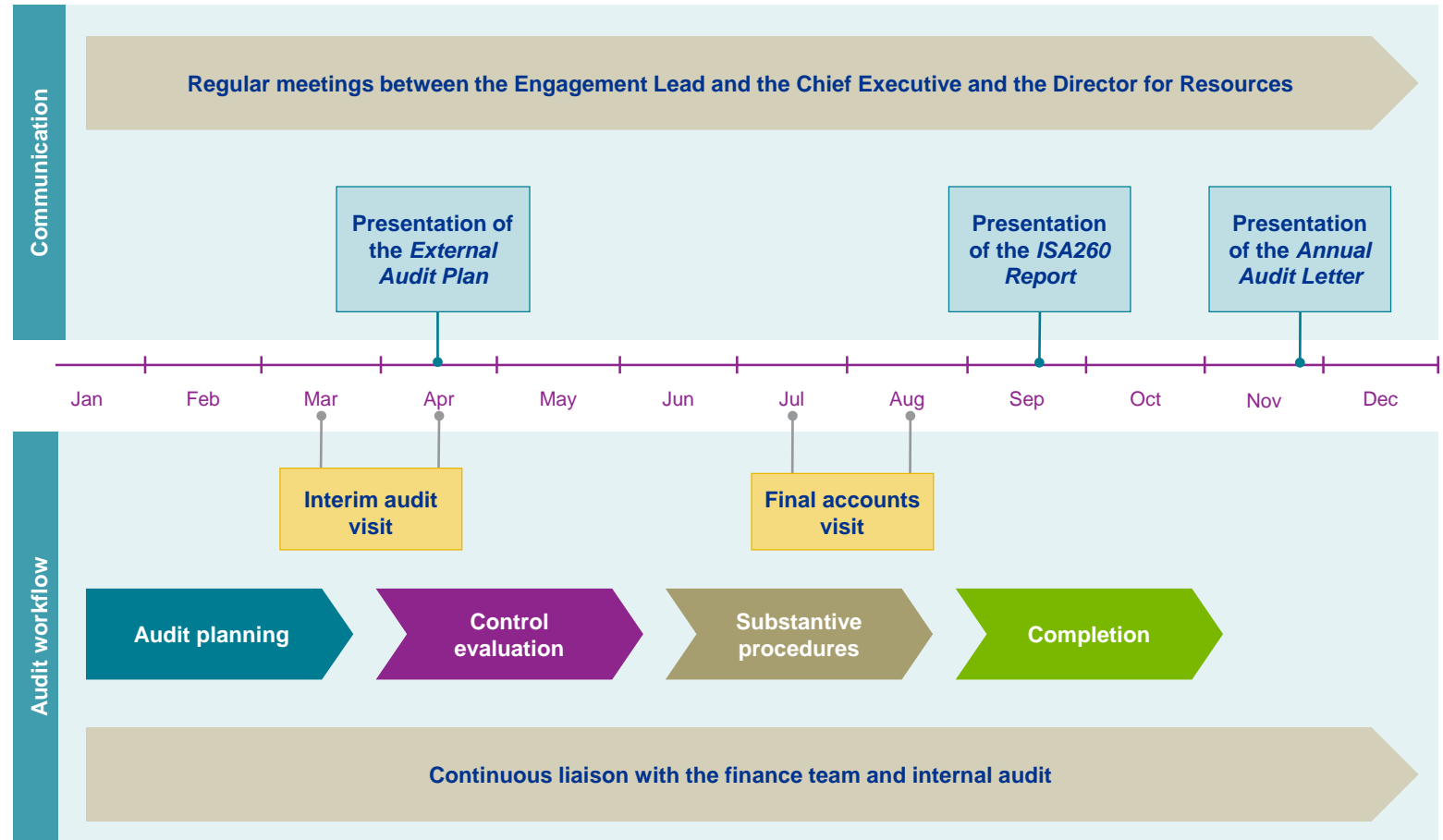
Key formal interactions with the Audit and Risk Committee are:

- February – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during July.



Key: ● Audit and Risk Committee meetings.

The planned fee for the 2014/15 audit is £87,308.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is £87,308. This is £1,070 more than the fee set out in our *Audit Fee Letter 2014-15* and is due to the increase in the Audit Commission's scale fee to reflect work required in relation to local Business Rates following the removal of the certification requirement for the NNDR3 return.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- further additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director for Resources..

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

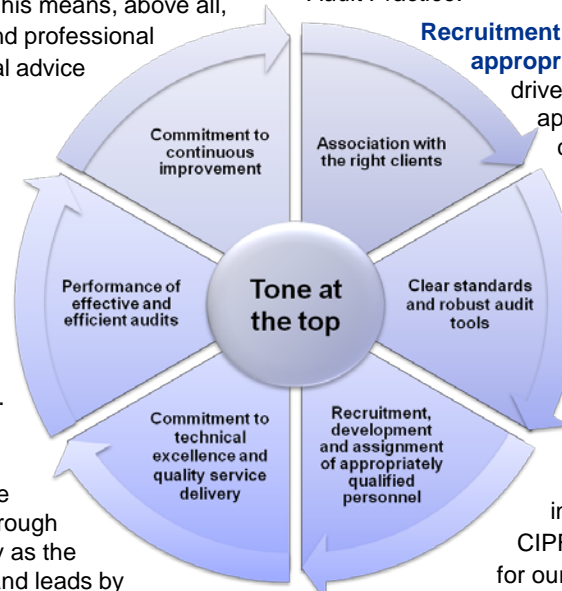
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Tony Crawley as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit and Risk Committee and auditors:
 - any significant deficiencies in internal controls.
 - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit and Risk Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit and Risk Committee and management/officers

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
 - Revenue recognition.
 - Management override of controls.

Appendix 4: Transfer of Audit Commission's functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.



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AUDIT & RISK COMMITTEE

7 April 2015

INTERNAL AUDIT UPDATE

Report of the Head of Welland Internal Audit Consortium

STRATEGIC AIM	All
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1. PURPOSE OF THE REPORT

- 1.1 To update Members on delivery of the 2014/15 Audit Plan.

2. RECOMMENDATIONS

- 2.1 That Members note the audit update report (Appendix A).

3. KEY ISSUES

- 3.1 The Public Sector Internal Audit Standards (the Standards) require the Committee to develop a consistent focus on the effectiveness of service delivery by the Consortium. The Internal Audit Update (Appendix A) has been developed as a basis for consistent performance reporting which sets out the information required by the Committee in a format that satisfies the requirements of the Standards.
- 3.2 At the date of writing, work has commenced on all 2014/15 assignments, of these sixteen final reports have been issued; four assignments are at draft report stage; and work is in progress on a further three assignments. At the end of March, it is anticipated that the audit plan will be at least 90% delivered (measured by % of audit reports in draft).
- 3.3 Since the last Audit and Risk Committee meeting, four assignments have been finalised (one with a substantial rating and three sufficient). The Council's Section 151 Officer has also requested a

change to the Audit Plan. It was agreed that the audit of Carer Support Arrangements is deferred on the basis that it would be of more value to the Council in the 2015/16 audit plan to take into account the new Care Act. The five days allocated to this assignment will be added to the Continuing Health Care audit to enable a more detailed review.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	The report does not prompt or require any time-bound response beyond approval of the report itself.
Viability	Low	There are no resourcing issues arising directly from this report.
Finance	Low	There are no financial issues arising directly from this report.
Profile	Medium	The report demonstrates that the Consortium and the Committee operates in conformance with the Standards.
Equality and Diversity	Low	EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out.

Background Papers

None

Report Author

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.



RUTLAND COUNTY COUNCIL

INTERNAL AUDIT UPDATE

APRIL 2015

Date: 07 April 2015

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 2014/15 annual audit plan and undertake other work commissioned.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit and 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.

Performance

2.1 Will we deliver the Audit Plan?

LGSS has been given the objective of delivering at least 90% of the internal audit plan for 2014/15 by the end of March 2015. At the time of reporting 87% of the audit plan has been completed to at least draft report stage and it is expected that the target of 90% will be achieved.

At the date of writing, sixteen final reports have been issued; four assignments are at draft report stage; and work is in progress on a further three assignments. Progress on individual assignments is shown in Appendix 2.

2.2 Are we delivering to budget (in terms of days)?

Internal Audit is on target to deliver the audit plan within the commissioned days. Any overruns on individual assignments are managed within the overall budget. Explanations for any budget overruns are provided in Appendix 2.

2.3 Are we delivering on time?

Fieldwork has been completed for nine audits and commenced for two audits since the previous report and all assignments are on track to be finalised within the overall timescales reported to the Welland Internal Audit Board.

2.4 Is productivity satisfactory?

The most recent information available (week 49) shows that the Internal Audit team are spending 85% of time on chargeable activities against a target of 90%. Time spent on non-chargeable activities has been higher than anticipated due to the implementation of a new software system and induction of new staff during the year. This figure also excludes the productivity of contractors, who are only paid for chargeable work.

2.5 Are we satisfying customers?

Customer satisfaction questionnaires are issued on completion of audits. At the time of reporting, eight questionnaires had been returned with scores of 'good' or 'outstanding' across all aspects of the audit. See Appendix 3 for further details.

2.6 Are there any emerging issues from audit work that impact on the Council's Control Framework?

Since the last Committee meeting the following audit reports have been finalised:

- **Local Taxes (Substantial Assurance)**

The audit review provided assurance that staff in the Revenues and Benefits team are highly experienced and have a thorough understanding of the systems, policies and procedures for managing the collection of local taxes. There is a comprehensive set of procedure notes for key aspects of the system and an effective range of controls to minimise the risk of fraud and error, including appropriate separation of duties where necessary. It was highlighted that arrangements could be strengthened further by improving system access controls and providing better documentary evidence for some aspects of the control framework.

Actions have been put in place to ensure evidence of user access approval to the Civica system is retained, Revenues and Benefits are notified of leavers in a timely manner and password configurations for Civica are changed to be in line with the Council's ICT Security Policy.

- **Early Years Performance Management & Funding (Sufficient Assurance)**

The governance arrangements for the Early Years Service were reviewed and found to be well designed. It was confirmed that there are appropriate mechanisms in place to review and monitor the performance of the service.

The audit report highlighted that controls over the accuracy and timeliness of funding claims and payments for two, three and four year old children could be improved. During sample testing, Internal Audit identified errors resulting in overpayments totalling circa £12.8K in the Autumn 2014/15 claim. The majority of these inaccuracies were caused by human error and were subsequently detected by Rutland County Council (RCC) but as the payments had already been processed, this required additional time and resource to resolve. These overpayments have been recovered.

It has also been agreed to perform spot checks on nursery settings to enable RCC to identify and rectify areas of concern, ensure accuracy and encourage providers to be extra diligent when submitting claims. Internal Audit reviewed the Autumn 2014/15 claim at five early years settings and found instances where a child's date of birth had not been evidenced, parent declaration forms had not been completed and the eligibility of two year olds receiving funding had not been appropriately evidenced on application .

- **Nursery Provision** (Sufficient Assurance)

This review focused on the adequacy of governance arrangements for schools with nursery settings. Internal Audit found that although the Council no longer has direct responsibility for ensuring schools and settings comply with safeguarding requirements, it has developed an appropriate framework of support to help schools and other early years providers ensure proper standards are in place.

For the five nurseries operating on school sites, local arrangements have been established for recharging costs and there was evidence of appropriate operational policies and procedures in some cases. However, financial and governance arrangements are not currently formalised into legally enforceable contracts or agreements. Management has agreed to ensure that any schools with early years settings on site draw up a formal contract.

- **Data Management** (Sufficient Assurance)

The audit confirmed that aspects of the Council's arrangements for data and information governance are in the early stages of development. Consequently, the audit focused on the basic systems and procedures in place for ensuring compliance with key aspects of the legislation (Freedom of Information (FOI) and Data Protection).

The report confirmed clear operating procedures have been developed and supported by a number of standard forms and templates. There is also evidence of senior officer commitment within the Council and various training and awareness initiatives are in place, however the quality of record keeping required improvement in some areas. Actions have also been put in place to update the Data Protection Policy, strengthen the process for Subject Access requests (SAR) and to retain evidence all FOI response reviews conducted by the Head of Corporate Governance.

2.7 **Are clients progressing audit recommendations with appropriate urgency?**

Outstanding audit recommendations now form part of the Quarterly Performance Report considered by Informal Cabinet.

At the date of reporting, there are 28 outstanding recommendations and nine of these are overdue for implementation. Three of the overdue recommendations are classified as high priority; however Internal Audit has been provided with assurance that work is in progress in all cases.

- A review of the Agresso system identified that Managers should be required to periodically review user access rights. The Performance and Application Support Team is assessing outstanding work and developing a plan for this to be completed, following staff leaving the Application Support team.

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- A review of safe driving at work required management to develop a process to ensure that driver and vehicle documentation is examined, and records retained, prior to authorisation being granted for new employees to drive their own vehicles whilst at work. Draft procedures are being finalised following input from the Health and Safety Advisor and will be completed by 25th March.
- An action regarding the development of arrangements to involve ICT in new projects has been raised. This is being progressed as part of a wider review of policies, procedures and system management that is being undertaken by the Interim Head of ICT. The recent change in Interim Head of IT has delayed this work. The aim is to complete the review of this documentation by the end of April.

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.

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Appendix 2: Progressing the annual audit plan

KEY

Current status of assignments is shown by ●

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Executive Report	Assurance Rating	Comments
Financial Risks										
Community Care Finance – Court of Protection & Deputyship	15	15						●	Limited	Final
Community Care Finance – Assessment Arrangements and Fairer Charging Policy	10	16.1						●	Sufficient	Due to change in audit personnel, additional substantive testing was required.
Benefits	15	6.3				●				
Local Taxes	15	14.2						●	Substantial	Final
Payroll	10	15.5						●	Sufficient	Scope of audit extended and additional testing undertaken following identification of an error in the initial sample.
Creditors	10	13.2					●			Further clarification needed on a number of controls, which required additional time.

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Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Executive Report	Assurance Rating	Comments
Debtors	10	7.1					●			
Agresso	20	20.3						●	Limited	Final
ICT Risks										
ICT Asset Management	15	1.1			●					
Service Desk & Change Management	15	12.5					●			
Fraud Risks										
Recruitment and Payroll Fraud	15	13.3						●	Sufficient	Final
NDR Fraud	15	10.9						●	Sufficient	Final
Money Laundering Policy	5	4						●	Consultancy	Complete
Governance & Performance Risks										
Data Management	25	14.8						●	Sufficient	Final
Safe Driving at Work	10	9.2						●	Limited	Final
Contract Management	25	20.3						●	Sufficient	Final
Service Delivery Risks										
Housing Options	10	9.9						●	Substantial	Final
Home to School	10	14.1						●	Sufficient	Additional time

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Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Executive Report	Assurance Rating	Comments
Transport										required to request evidence from providers and conduct further testing.
Early Years Funding	20	15.4						●	Sufficient	Final
Nursery Provision	15	13.1						●	Sufficient	Final
School Improvement Programmes	20	12.4					●			
School Admissions Service	10	9.9						●	Substantial	Final
Continuing Health Care Funding	10	0.8			●					
Unplanned Work										
Contingency	15	0								
Management, supervision, review and follow-up	30	24.4								
TOTAL	370	293.8								

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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.

Substantial	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.
Sufficient	The control framework is basically sound but either <ul style="list-style-type: none">• 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.
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.

Assurance ratings in the range Substantial or Sufficient indicate that an acceptable level of internal control has been identified.

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Appendix 3: Customer Satisfaction

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire 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 8 responses received in the year to date are set out below.

Client Response/Assignment	No of areas rated as...				
	N/A	Outstanding	Good	Satisfactory	Poor
Community Care Finance - Court of Protection & Deputyship			4		
Community care finance - assessment arrangements and fairer charging policy		2	2		
NDR fraud		1	3		
Data management			4		
Contract management		1	3		
School admissions service		4			
Early years funding		3	1		
Local Taxes		3	1		
Total		14	18		
Aspects of Audit Assignments	Analysis of results by theme				
	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment		2	6		
Communication during Assignments		4	4		
Quality of Reporting		3	5		
Quality of Recommendations		5	3		
Total		14	18		

AUDIT & RISK COMMITTEE

7 April 2015

INTERNAL AUDIT PLAN 2015/16

Report of the Head of Welland Internal Audit Consortium

STRATEGIC AIM	All
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1. PURPOSE OF THE REPORT

- 1.1 To present the draft Internal Audit Plan for 2015/16 for Members' review, refinement and formal approval.

2. RECOMMENDATIONS

- 2.1 That Members review and approve the Internal Audit Plan for 2015/16.
- 2.2 That Members give authority to the Assistant Director – Finance to make changes to the audit plan in consultation with the Chair of the Audit and Risk Committee and to report any changes at the next available Committee.

3. KEY ISSUES

- 3.1 The Welland Internal Audit Consortium provides the Internal Audit service for Rutland County Council and is commissioned to provide 370 days to deliver the Annual Audit Plan.
- 3.2 The Public Sector Internal Audit Standards require the annual Audit Plan to be reviewed and approved by the 'Audit Committee'. The Audit Plan should be developed based upon key risks identified through consultation with Senior Management and members of the committee.

3.3 At the last Audit and Risk Committee meeting, Members reviewed an initial list of potential topics which were generally supported in particular the audit of the Better Care Fund. These assignments have been built into the audit plan with the exception of:

- New expenses policy – placed on a ‘reserve’ list based on a risk assessment should other items be deferred;
- PeopleFirst review – other assurance mechanisms are in place over implementation progress; and
- Supplier account maintenance – included in fraud risk review.

3.4 Appendix A to this report provides further detail on the development of the 2015/16 Audit Plan and a copy of the draft Internal Audit Plan.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	The report does not prompt or require any time-bound response.
Viability	Low	There are no resourcing issues arising directly from this report.
Finance	Low	There are no financial issues arising directly from this report. The audit plan is based upon the number of days commissioned from the Council on an annual basis.
Profile	Medium	The report demonstrates that the Consortium and the Committee operates in conformance with the Standards.
Equality and Diversity	Low	EIA screening indicates no issues arising therefore full Impact Assessment has not been carried out.

Background Papers
None

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Internal Audit Plan 2015 / 2016

RUTLAND COUNTY COUNCIL

Head of Internal Audit

INTERNAL AUDIT PLAN 2015/16

1. Introduction

- 1.1 This report sets out the proposed Internal Audit Plan for 2015/16 for approval by the Audit & Risk Committee.
- 1.2 In August 2014, LGSS was commissioned to manage the Welland Internal Audit Consortium. As part of this role, LGSS has been given responsibility for developing the Audit Plans for 2015/16. This has provided an opportunity to 'refresh' the approach to Audit Planning and ensure that the Plans are of optimum value to the Council and provide Members with the necessary assurances to exercise their roles and responsibilities.
- 1.3 In setting the Annual Audit Plan, the Public Sector Internal Audit Standards require:
- The Audit Plan should be developed reflecting the Council's key risks as identified through consultation with senior management and the Audit Committee; and
 - The Audit Plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead.

2. The Audit Plan

- 2.1 The Audit Plan is designed to support the provision of an annual Head of Internal Audit Opinion. The basis for forming this opinion is as follows:
- An assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
 - An assessment of the range of individual opinions arising from the risk based assignments, which will be reported throughout the year.

Planning Process

- 2.2 During February 2015, Individual meetings have been held with the Council's Senior Management Team to identify the key potential risk areas for audit coverage.
- 2.3 Members of the Audit & Risk Committee were provided with an opportunity to raise any areas where they require assurance during 2015/16 at the January 2015 Committee meeting.
- 2.4 Internal Audit also draw upon an "audit universe" (a list of potential areas for Internal Audit review) to highlight a list of further potential audit review areas for consideration.

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- 2.5 The process has also incorporated consideration of potential audits which can be undertaken by drawing upon similar emerging themes from the Councils within the Welland Internal Audit Consortium.
- 2.6 The Audit Plan covers the two key component roles of Internal Audit:
- The provision of an independent and objective opinion to the Section 151 Officer/ and the Governance and Audit Committee on the degree to which risk management, control and governance support the achievement of Council objectives;
 - The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.
- 2.7 Following this consultation, a Draft Internal Audit Plan has been compiled. The Draft Internal Audit Plan is provided in Appendix A.
- 2.8 Also provided as Appendix B, is a schedule of other potential areas for audit coverage. These have been considered in discussions with Senior Management but have been assessed as lower risk or of lower value at this time. The Audit Plan will be subject to ongoing review during the year to ensure it continues to address the key risks to the Council, however, any changes would be subject to formal approval. The additional potential audits within Appendix B will be considered where any other assignments within the plan are deferred or amended. Members could also consider whether any of these assignments should be incorporated within the draft Plan in place of any of the planned assignments.

Appendix A
Draft Internal Audit Plan 2015/16

Assurance Area	Audit Assignment and Potential Coverage	Proposed days
Finance	Key Financial Controls Annual review of the Council's key financial controls.	55
	Financial Governance / Transparency This review can be conducted at multiple Councils across the Welland consortium to compare approaches to transparency around the budget setting and budget monitoring processes and compliance with the Transparency Code.	7
Counter Fraud	Fraud Risk Review In 2014/15 the Council has put together a fraud risk register. The review will select a sample of areas from the register and assess whether controls noted are working as intended. This will include controls over supplier account maintenance which were further developed following a fraud in 2014/15.	15
Service Delivery	Better Care Fund (BCF) Monitoring The BCF pooled fund comes into effect from 1 st April 2015. Each BCF project needs to demonstrate its impact against BCF targets and show how much has been spent. This review will focus on a sample of schemes and verify reported performance and spend.	15
	Data Retention and Disposal To review procedures in place for data management and disposal, including IT specific controls and procedures. Work is currently underway within the Council to improve these areas and a review in 2015/16 will provide assurance over the robustness of these arrangements once complete.	15
	Recruitment of Interims and Agency staff The Council has agreed a revised procedure for recruitment of Interims and Agency staff to ensure that all employment regulations are complied with and value for money is achieved. The review will consider how these procedures are being applied.	15
	Contract Procedure Rules (CPR) compliance In 2013/14 the Council updated its CPR's. New procurement rules are also likely to come into force early in the new year which will require CPR's to be updated again. This review will assess how officers are complying with these procedures but also identify any practical difficulties in applying the rules to inform future revisions.	15
	Capital Allocations Programme Board To review the Terms of Reference for this group and whether funding is allocated to schools in accordance with this. To provide assurance over the decision making processes and the approach adopted for academies. This is a priority area for 2015/16 and facing additional pressures due to new primary schools and increased places.	20

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Assurance Area	Audit Assignment and Potential Coverage	Proposed days
	<p>Digital Broadband To deliver support to this project and provide assurance over the billing arrangements and quality assurance processes.</p>	15
	<p>Kerbside Collections To review compliance with TEEP (technically, environmentally and economically practicable) requirements following EU ruling, to provide assurance that procedures would withstand challenge. This audit is planned at other Councils within the Consortium and will share best practice.</p>	15
	<p>Demand Led Budgets To review procedures in place for managing and monitoring demand led budgets in the Council's People Directorate.</p>	20
	<p>External Placements (Care Packages) To review the Council's procedures around purchasing external social care placements. To provide assurance over the processes in place to ensure value for money is achieved, and subject to ongoing assessment, and that contract management is robust.</p>	15
	<p>Care Act Implementation To review the implementation and embedding of the revised policies and procedures following the introduction of the Care Act in April 2015. This could include consistent application of revised eligibility criteria, newly introduced eligibility criteria for carers, staff training effectiveness etc.</p>	20
	<p>Public Health Budgets To review budget arrangements in place for the use of Rutland Public Health funding.</p>	15
	<p>Limited Assurance Reports There were a number of audits in 2014/15 which resulted in 'Limited' opinions. In all cases action plans were agreed to resolve issues raised. This review will report on the updated status of those action plans.</p>	15
ICT	IT Audit Plan to be developed in consultation with Head of IT and specialist LGSS IT Auditor.	30
Client Support	Committee attendance and preparation, client liaison, follow up of audit actions, committee training, audit planning, annual Head of Internal Audit reporting, Annual Governance Statement/National Fraud Initiative support and advice and assistance.	34
Welland Internal Audit Management	Management of the Welland Internal Audit Consortium.	34
	Total days commissioned	370

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Appendix B

Other Potential Audit Areas for Consideration

Audit Assignment and Potential Coverage
<p>Oakham Enterprise Park To review the leasing and rent review arrangements in place and provide assurance as to compliance with best practice and whether these are being accounted for correctly.</p>
<p>New Expenses Policy Following a review of the expenses policy further to a tax review by KPMG and acceptance by HMRC of the Council's P11D dispensation, a new policy will be in place for 2015/16. This review will assess compliance with the P11D dispensation and the new policy.</p>
<p>Data Quality To provide assurance over the data quality procedures in place for the Council's performance data.</p>
<p>Community Infrastructure Levy / s.106 Agreements To review processes in place to maximise income potential from s.106 / CIL agreements for the Council. However, it is understood that this audit assignment would not be of utmost value until the end of 2015/16 and can be reviewed in depth as part of the 2016/17 Audit Plan.</p>

AUDIT AND RISK COMMITTEE

7 April 2015

EMERGING ISSUES FOR THE CLOSURE OF ACCOUNTS 2014/15

Report of the Director of Resources

STRATEGIC AIM:	All
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1. PURPOSE OF THE REPORT

- 1.1 To inform the Committee of the emerging issues that will have an impact on the production of the Statement of Accounts for 2014/15.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the contents of this report.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 To ensure that the Committee is aware of plans in place to ensure effective and timely closure of accounts.

4. APPROVAL OF THE ACCOUNTS

- 4.1 The Statement of Accounts (SoA) must be certified by the Chief Financial Officer (i.e. the Assistant Director – Finance) by 30 June each year, for submission to the external auditor.
- 4.2 It is the responsibility of the Audit and Risk Committee to consider the SoA, after examination by the external auditor, and to approve it no later than 30 September each year.

5. THE CLOSURE PROCESS, EMERGING ISSUES AND KEY DATES

- 5.1 Senior members of the Finance Team have attended either a CIPFA (Chartered Institute of Public Finance and Accountancy) or a KPMG final accounts workshop in early 2015 to learn about any changes required in preparing the SoA. The SoA is prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting. Having reviewed the Code for 2014/15 there are no significant changes from last year. Any minor changes will be incorporated into the closedown process if appropriate.
- 5.2 The most noteworthy changes will be as a result of changes in interpretation of IFRS 10 (Consolidated Financial Statements) with specific implications for school assets.

- 5.3** The change required in adopting IFRS 10 is to ensure schools assets, liabilities, reserves and cashflows are consolidated into the Councils SoA. The main change will be in relation to Non-current assets, as potentially the Council will need to recognise additional school assets on its Balance Sheet that were previously not as, in the main, only Council/LEA schools are included on the Councils Balance Sheet.
- 5.4** Previously, the accounting basis was decided by a test of risk and rewards. If a Governing body of a school was responsible for the running of the school, repairs and maintenance on the asset and also retained the income generated from the building, the asset would not have been consolidated into the Council's account even if the Council was the legal owner. The Council was deemed not to have any control over the asset.
- 5.5** The main change in the tests is the introduction of a new question "Does the Council retain substantive rights over the assets?" In the example above the Council would be deemed to have a substantive right over the asset if it was the legal owner of the freehold of the school. In this case, the asset will be included on Balance Sheet under the consolidation of the schools balances into the Councils SoA.
- 5.6** The only other emerging issue that is noteworthy relates to a change in the way Infrastructure Assets, (e.g. roads, bridges, footpaths and street furniture etc) are valued. The present historic cost-based approach to valuing Infrastructure assets does not show what impact any expenditure has on the condition of the assets and gives a gross value of £38.975m. A historic cost valuation effectively means assets are carried at the value at the price paid for the asset or the cost of bringing the asset into use.
- 5.7** Using the Depreciated Replacement Cost (DRC) method of valuation will result in assets being valued at the current cost of replacing them with its modern equivalent less any reduction in value for its current state of repair and condition. The valuation of Infrastructure assets using the new methodology is expected to be as high as 5 times the Historic Cost Value. This will have no real impact for the Council.
- 5.8** CIPFA have produced the Code of Practice on Transport Infrastructure Assets to provide guidance on how the revaluation should be undertaken. The change will be introduced from 2016/17 but there will be a need to have the comparative data for 2015/16 figures. A group of officers will be meeting in 2015 to determine what needs to be done and to draw up a timetable for doing the necessary work to ensure that the values for 2015/16 are available for when they are needed.
- 5.9** A detailed timetable for producing the Statement of Accounts for 2014/15 has been completed which will include all elements of the closure process as well as reporting deadlines. Weekly progress meetings will be held during closedown to monitor progress and to identify any problems and/or delays, and these will be escalated if necessary.
- 5.10** The key dates for Members to be aware of are as follows:

- Early June 2015: Q4 Financial Monitoring report presented to Cabinet;
- Mid June 2015: Audit and Risk Committee meeting – an update on the SoA process will be provided;
- 30 June 2015: certification of the draft SoA by the Chief Finance Officer for submission to the external auditor;
- Mid July 2015 (date to be confirmed): External Audit process commences
- Mid July 2015: Financial Outturn position reported to Cabinet – this is an expansion of the Q4 report including all year-end adjustments and demonstrates how the outturn position reconciles to the Income and Expenditure Account within the SoA;
- Early September 2015: Final, audited SoA presented to Audit and Risk Committee for approval, along with the Audit Commission’s Annual Governance Report; and
- 30 September 2015: Audit opinion issued and SoA published.

5.11 It should be noted that these dates are based on last year’s timetable. When the timetable of Council Meetings has been agreed these dates can be confirmed.

5.12 In addition to the formal presentation of the SoA to the Audit and Risk Committee, it is intended that a briefing session will be held in advance of the formal meeting. This was provided last year to assist members in gaining a good enough understanding of the SoA to undertake their role effectively.

6. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Medium	The closedown timetable is always challenging but with preparatory work being done beforehand and close management of the whole process the key deadlines will be met.
Viability	Low	There are no direct implications within this report.
Finance	High	The Statement of Accounts summarise the financial performance and position of the Authority at 31 March 2015.
Profile	Medium	Although the financial position of the Authority is high profile at the current time, there is less public interest in the Statement of Accounts.
Equality and Diversity	Low	Equality Impact Assessment completed, there are no particular issues from this report.

Background Papers

CIPFA Code of Practice on Local Authority Accounting
Closure of Accounts Timetable 2014/15

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A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

AUDIT AND RISK COMMITTEE

7th April 2015

REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) QUARTERLY REPORT

Report of the Director for Resources

STRATEGIC AIM:	All
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1. PURPOSE OF THE REPORT

- 1.1 The Regulation of Investigatory Powers Act 2000 (RIPA) was enacted to provide a framework within which a public authority may use covert investigation for the purpose of preventing and detecting crime or of preventing disorder.
- 1.2 The codes of practice issued by the Home Office in relation to Part II of RIPA recommend that elected members have oversight of the Council's use of these provisions. The Audit and Risk Committee's terms of reference enable the Committee to receive reports on the Council's use of covert investigations under RIPA.

2. RECOMMENDATIONS

- 2.1 **That the Audit and Risk Committee note the content of this report, which covers quarter 4 of 2014/2015. No further action is required.**

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 The Council has broad statutory functions and takes appropriate enforcement action in relation to those functions. There may be circumstances in the discharge of its statutory functions in which it is necessary for the Council to use RIPA for the purpose of preventing crime or disorder.
- 3.2 To date, the Council has made infrequent use of RIPA and recognises that there are usually less intrusive methods of obtaining information. The Council will continue to adopt this approach where possible.
- 3.3 To this end, during the period 1st January to 31st March 2015 no applications were made for the authorisation of RIPA.

4. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	Report for information only.
Viability	Low	As above.
Finance	Low	There are no direct financial implications arising as a result of this report.
Profile	Low	There may be some public interest in the content but this is unlikely to be significant.
Equality and Diversity	Low	No impact assessment has been carried out as there are no direct implications.

Background Papers

None.

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