



Rutland County Council

Catmose, Oakham, Rutland, LE15 6HP.
Telephone 01572 722577 Email: governance@rutland.gov.uk

Ladies and Gentlemen,

A meeting of the **AUDIT AND RISK COMMITTEE** will be held in the Council Chamber, Catmose on **Tuesday, 1st October, 2019** commencing at 7.00 pm 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/my-council/have-your-say/

Please note hard copies of the agenda will not be available at the meeting. If you require a hard copy of the agenda please email your request to governance@rutland.gov.uk or telephone (01572) 720991.

A G E N D A

1) APOLOGIES FOR ABSENCE

2) MINUTES

To confirm the minutes of the Audit and Risk Committee held on 23 July 2019.

3) DECLARATIONS OF INTEREST

In accordance with the Regulations, Members are invited to declare any disclosable interests under the Code of Conduct 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.

4) PETITIONS, DEPUTATIONS AND QUESTIONS

To receive any petitions, deputations and questions received from Members of the Public in accordance with the provisions of Procedure Rules 93 and 94.

The total time allowed for this item shall be 30 minutes. Petitions, declarations 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 Committee Administrator 15 minutes before the start of the meeting.

The total time allowed for questions at short notice is 15 minutes 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.

5) QUESTIONS WITH NOTICE FROM MEMBERS

To consider any questions received from Members of the Council in accordance with the provisions of Procedure Rule 95.

6) NOTICES OF MOTION

To consider any Notices of Motion from Members submitted under Procedure Rule 97.

7) MATTERS ARISING

8) EXTERNAL AUDITORS ANNUAL AUDIT LETTER

To receive Report No.153/2019 from the Strategic Director for Resources.
(Pages 5 - 22)

9) INTERNAL AUDIT PROGRESS REPORT

To receive Report No.154/2019 from the Strategic Director for Resources.
(Pages 23 - 50)

10) ANY OTHER URGENT BUSINESS

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

---oOo---

TO: ELECTED MEMBERS OF THE AUDIT AND RISK COMMITTEE

Miss G Waller (Chairman)

Mr E Baines

Mr A Brown

Ms K Payne

Mrs R Powell

Mr I Razzell

Mr N Woodley

OTHER MEMBERS FOR INFORMATION

This page is intentionally left blank

AUDIT AND RISK COMMITTEE

1 October 2019

EXTERNAL AUDITORS ANNUAL AUDIT LETTER

Report of the Strategic Director for Resources

Strategic Aim:	All	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
Contact Officer(s):	Saverio Della Rocca, Strategic Director for Resources	01572 758159 sdrocca@rutland.gov.uk
	Andrew Merry, Finance Manager	01572 758152 amerry@rutland.gov.uk
Ward Councillors	Not Applicable	

DECISION RECOMMENDATIONS

That the Audit and Risk Committee approve the External Auditors Annual Audit Letter

1 PURPOSE OF THE REPORT

- 1.1 The external auditors, Grant Thornton, have completed their audit work for 2018/19 and the results are attached in the Annual Audit Letter (Letter) for the Committee to note.

2 BACKGROUND AND MAIN CONSIDERATIONS

- 2.1 The Letter provides a commentary on the results of the auditors work to the Council and external stakeholders, and highlights issues that the auditors wish to draw to the attention of the public. The auditors reported their detailed findings from their audit work to the Council's Audit and Risk Committee on 23 July 2019.
- 2.2 The report includes no specific recommendations.
- 2.3 The Committee should note that the audit certificate cannot be issued until the Committee has dealt with outstanding objectives. The external auditor will update the Committee as appropriate at the meeting.

3 CONSULTATION

- 3.1 None required.

4 ALTERNATIVE OPTIONS

- 4.1 The Audit and Risk committee is responsible for overseeing external audit matters so there are no alternative options.

5 FINANCIAL IMPLICATIONS

- 5.1 None.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

- 6.1 Section 3 of Part 3 of the Councils Constitution state that it is the responsibility of the Audit and Risk Committee to receive reports from the external auditors.

7 DATA PROTECTION IMPLICATIONS

- 7.1 A data protection impact assessment has not been completed as there are no data protection implications.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

9 COMMUNITY SAFETY IMPLICATIONS

- 9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

- 10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

- 11.1 This report presents the opinion from the external auditors and highlights some of the key matters, and asks the Audit and Risk Committee to approve the letter in line with their constitutional responsibility.

12 BACKGROUND PAPERS

- 12.1 There are no additional background papers to the report.

13 APPENDICES

- 13.1 Appendix A – Annual Audit Letter

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

The Annual Audit Letter for Rutland County Council

✓
Year ended 31 March 2019

August 2019



Contents



Your key Grant Thornton team members are:

John Gregory

Key Audit Partner

∞ T: 0121 232 5333
E: john.gregory@uk.gt.com

Paul Harvey

Engagement Manager

T: 0116 257 5589
E: paul.m.harvey@uk.gt.com

David Schofield

Executive

T: 0121 232 5103
E: david.schofield@uk.gt.com

Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

3
5
10

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rutland County Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 23 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,250,000, which is 2% of the Council's prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 23 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions, and to certify the Council's Teacher's Pension return. Our work on these claims is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit and Risk Committee separately.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Rutland County Council until we complete our work on objections made by local electors concerning the Council's action in relation to the St George's Barracks site.

Working with the Council

This has been our first year as your external auditors. We aimed to achieve a smooth transition from your previous auditors, KPMG, and have worked closely with your officers throughout the year to ensure we were able to deliver our opinions and VFM conclusion to enable you to publish your Statement of Accounts by the 31 July deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,250,000, which is 2% of the Council's prior year gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for senior officer remuneration, which we consider to be sensitive and of interest to the public.

We set a lower threshold of £62,500, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements to which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p> <p>→</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>In our audit plan we rebutted this presumed risk for Rutland County Council because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Rutland County Council, mean that all forms of fraud are seen as unacceptable 	<p>This assessment is still appropriate and therefore the risk is rebutted.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (Rolling revaluation)</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£35 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, for those assets not formally revalued in the year.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the processes, controls and assumptions put in place by management to ensure that the PPE valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement; assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE valuations; evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work; communicated with the valuer about the basis on which the valuation is carried out and where necessary challenge the key assumptions reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value 	<p>Our audit work has not identified any issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£22 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have, relying where appropriate on work carried out by ourselves as auditors of the Leicestershire Pension Fund:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued to the management expert (actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary, through the Pension Fund, to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • documented and evaluated the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>During the course of our audit, there were significant developments in relation to a legal case, the McCloud case, on alleged age discrimination in transitional arrangements in public sector pension schemes. The Government was refused leave to appeal the Court's decision, increasing the likelihood of increase future pension payments.</p> <p>As a result, you obtained an updated actuarial report which estimated the impact of the McCloud case and resulted in an amendment to the accounts of an increase in pension liabilities of £2.2m.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 23 July 2019. Other than the adjustments arising from the McCloud case (previous page), there were no significant amendments to the accounts as a result of our audit, but we did recommend, and the Council implemented, some improvements to disclosure notes to further increase compliance with the CIPFA Code.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold of £500m for 2018/19.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not exercised any of our additional statutory powers or duties to date, but we have yet to conclude our consideration of two objections made to the accounts by local electors, relating to St George's Barracks site.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Rutland County Council until we complete our work on the above objections.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risk we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability</p> <p>Officers are currently in the process of finalising the budget for 2019/20 and the medium term financial plan (MTFP) 2018 to 2023 and are expecting to present it to Cabinet in February 2018 for approval. For 2019/20 the Council is proposing a balanced budget with no use of General Fund reserves. The medium term financial strategy (MTFS) 2018/19 to 2022/23 shows that the Council will need to use general fund reserves to balance the budget from 2020/21 onwards (£1.45m in 2020/21, £1.3m in 2021/22 and £1.16m in 2022/23). While this position is far less severe than that faced by many authorities, it will still require careful planning and management.</p>	<p>We have undertaken the following procedures to address this VfM risk:</p> <ul style="list-style-type: none"> • Reviewed the outturn for 2018/19 and the updated MTFS. • Assessed how the Council is planning on addressing the funding gaps going forward as the use of general fund reserves is not sustainable in the long term 	<p>Our Findings:</p> <ul style="list-style-type: none"> • The authority reported an underspend of £74k (after transfers to reserves of £2,355k) on its revised general fund budget for 2018/19. The General Fund reserve stands at £8.963m as at 31 March 2019. This is above the minimum General Fund reserve balance set by the authority of £2m (5.5% of net expenditure). • The authority has set a General Fund balanced budget of £36.4m for 2019/20, with a contribution of £41k from general fund balances and has refreshed its Medium Term Financial Strategy 2019/20 to 2021/22. Based on these assumptions the authority has a balanced budget for 2019/20, which builds upon various savings schemes introduced during 2018/19. The authority has assumed a “stand still” funding position and on this basis has estimated it would have a budget shortfall of £1,544k in 2020/21, and a further £2,078k in 2021/22. <p>Conclusion:</p> <ul style="list-style-type: none"> • Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care. Given these uncertainties, the authority is proposing to use its general fund reserves in the short term until the outlook becomes clearer. In preparation for this the authority is reviewing all of its expenditure and income to identify savings and revenue options. • The authority needs to make tough decisions ahead to deliver balanced budgets over the coming years, but also to maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly. The use of reserves to balance the budget is not sustainable in the long term and the authority needs to make the most of the time it now has available to put it onto a sound sustainable financial footing.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	29 January 2019
Audit Findings Report	23 July 2019
Annual Audit Letter	16 August 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	50,420	52,420	65,481
Total fees	50,420	52,420	65,481

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £50,420 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. We have agreed with officers an additional fee of £2,000, primarily to cover the additional costs arising from the McCloud case, as set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£2,000
Total		£2,000

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services (yet to be carried out)

Service	Fees £
Audit related services	
- Housing benefit (Subsidy) Assurance Process	6,500
Non-Audit related services	
↳ Certification of 2018/19 Teachers Pension Return	3,500

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

AUDIT AND RISK COMMITTEE

1st October 2019

INTERNAL AUDIT UPDATE

Report of the Head of Internal Audit

Strategic Aim:	All	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
Contact Officer(s):	Rachel Ashley-Caunt, Head of Internal Audit	Tel: 07824 537900 rashley-caunt@rutland.gov.uk
Ward Councillors	N/A	

DECISION RECOMMENDATIONS

That Members note the Internal Audit update report (Appendix A).

1 PURPOSE OF THE REPORT

- 1.1 To update Members on the progress made in delivering the 2019/20 Annual Audit Plan and outcomes from audit assignments completed since the last Committee meeting.

2 BACKGROUND AND MAIN CONSIDERATIONS

Update on Delivery of Internal Audit Plan

- 2.1 The progress made to date in delivering the 2019/20 audit plan is set out in Appendix A. At the time of reporting, 38% of the audit plan is either in progress or complete.

Implementation of Recommendations

- 2.4 Internal Audit request that officers provide updates on all open audit actions on a monthly basis.
- 2.5 Since the last Committee meeting, 23 recommendations have been confirmed as implemented.

- 2.6 There are currently six actions rated as 'High' or 'Medium' priority which are more than three months overdue for implementation but have not yet been fully implemented. Internal Audit has been provided with assurance that progress is being made in these areas and to manage the risks associated.

Internal Audit report – example

- 2.7 It is standard practice for any audit reports receiving lower than Satisfactory Assurance opinions to be presented to the Audit and Risk Committee in full. To date, no such reports have been issued from the 2019/20 Audit Plan.
- 2.8 It was agreed with the Chair of the Audit and Risk Committee that an example of an audit report receiving a higher level of assurance would be presented to the committee as an example of the work of Internal Audit and the basis for the opinions given. As such, a copy of the Internal Audit report on Procurement Cards has been provided as Appendix F to this report.

3 CONSULTATION

- 3.1 No formal consultation is required.

4 ALTERNATIVE OPTIONS

- 4.1 The Committee is asked to note the report but may wish to receive an earlier update on any limited assurance reports.

5 FINANCIAL IMPLICATIONS

- 5.1 There are no financial implications arising from this report.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

- 6.1 The Audit and Risk Committee is responsible for oversight of the work of Internal Audit including approving the annual report and satisfying itself that the conclusions reached are reasonable in light of the work undertaken. It is also responsible for gaining assurance that internal audit is complying with internal audit standards.
- 6.2 There are no legal implications arising from this report.

7 DATA PROTECTION IMPLICATIONS

- 7.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 There are no equality implications.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11.1 The latest update report, provided in Appendix A, details the findings of recent Internal Audit work and any weaknesses in the control environment highlighted by these reviews, and provides an overview of the performance of the Internal Audit team and the implementation of actions by management. The Committee plays an important role in the oversight of Internal Audit work.

12 BACKGROUND PAPERS

12.1 There are no additional background papers to the report.

13 APPENDICES

13.1 Appendix A: Internal Audit Update Report

13.2 Appendix B: Implementation of Audit Recommendations

13.3 Appendix C: 'High' and 'Medium' Priority actions overdue for more than three months

13.4 Appendix D: Customer satisfaction statistics

13.5 Appendix E: Limitations and responsibilities

13.6 Appendix F: Internal Audit report – Procurement cards

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

This page is intentionally left blank



RUTLAND COUNTY COUNCIL
INTERNAL AUDIT UPDATE
OCTOBER 2019

Date: 1st October 2019

Introduction

- 1.1 LGSS provides the internal audit service for Rutland County Council and has been commissioned to provide 360 audit days to deliver the 2019/20 annual audit plan and undertake other work commissioned by the client.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the 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 Internal Audit service, which it requires to engage in effective scrutiny.

Performance

2.1 Will the Internal Audit Plan for 2019/20 be delivered?

LGSS is set the objective of delivering at least 90% of the Internal Audit plans to draft report stage by the end of March 2020.

At the time of reporting, 38% of the audit plan is either complete or in progress. The Internal Audit service is on track to ensure that at least 90% of assignments are either in draft or final report stages at 31st March 2020.

2.2 Are audits being delivered to budget?

Internal Audit is on target to deliver the Audit Plan within the 360 days budget. Any overruns on individual assignments are managed within the overall budget.

2.3 Is the Internal Audit team achieving the expected level of productivity?

The most recent information available (week 22) shows that the Internal Audit team are spending 95% of time on chargeable activities against a target of 90%.

2.4 Are clients satisfied with the quality of the Internal Audit assignments?

Customer satisfaction questionnaires are issued on completion of audits. Scores given by audit clients during the year to date are shown in Appendix D.

2.5 Based upon recent Internal Audit work, are there any emerging issues that impact on the Internal Audit opinion of the Council's Control Framework?

Since the last committee meeting, one audit assurance report (**IR35 Compliance**) has been finalised and no significant areas of weakness have been identified which would impact upon the Internal Audit opinion. The Internal Audit team has also reviewed and certified use of grant monies and grant claims including the Changing Lives service and use of Highways Maintenance funding. The status of each planned assignment is provided in Table 1.

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

Outstanding audit recommendations form part of the Quarterly Performance Report considered by Cabinet. Since the last Committee meeting, 23 actions arising from audit reports have been implemented.

At the date of reporting, there are 13 open audit actions which are overdue for implementation. Of these, 6 actions were due for implementation over three months ago and were categorised as 'High' or 'Medium' priority. See Appendix C for further details.

Table 1: Progressing the annual audit plan

KEY

Current status of assignments is shown by ●

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Key Corporate Controls and Policies												
Creditors	13	-	●									Q4
Payroll	15	-	●									Q4
Treasury management	14	3.4			●							
Local taxation	13	-	●									Q4
Contract Procedure Rules Compliance	10	-	●									Q4
IR35 compliance	10	10.8					●		Good ●	Satisfactory ●	Minor ●	
Corporate Governance and Counter Fraud												
Fraud Risk Register	15	-	●									Q4
Corporate Objective: Sustainable growth												
Highways contract management	15	1			●							
Waste management	20	4.1			●							

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
FixMyStreet	12	0.2		●								
Corporate Objective: Safeguarding and Health and Wellbeing												
Schools thematic audit	12	-		●								
Community safety and CCTV	14	-	●									Q3/4
Housing and Homelessness	15	5.6			●							
Disabled facilities grants	14	15					●					
Corporate Objective: Sound financial and workforce planning												
Budgetary control	12	-	●									Q3
CIL/s106 monitoring	17	-	●									Q3/4
Licensing	12	11					●					
Corporate Objective: Reaching our potential												
Customer service standards	15	-	●									Q4
IT Audit – asset management	15	0.5		●								
Complaints and compliments management	15	0.5		●								
Other Assurances												
Grant Claims	15	2.2			●				N/A - certification			

Assignment	Budget	Actual	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Control Environment	Compliance	Org Impact	Comment
Client Support (Committee support, training, client liaison, advice/assistance, follow ups)	33	9.7										
Internal Audit Management & Development	33	4.1										
TOTAL	360	68.1										

32

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.

Compliance Assurances		
Level	Control environment assurance	Compliance assurance
Substantial ●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended and no, or only minor, errors have been detected.
Good ●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory ●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited ●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No ●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

33

Organisational Impact

Level		Definition
Major	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
High	●	Action is imperative to ensure that the objectives for the area under review are met.
Medium	●	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low	●	Action recommended to enhance control or improve operational efficiency.

Appendix B: Implementation of Audit Recommendations

	High priority recommendations		Medium priority recommendations		Low priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and implemented since last Committee meeting	1	33%	15	68%	7	64%	23	64%
Actions due within last 3 months, but <u>not implemented</u>	1	33%	2	9%	1	9%	4	11%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	1	33%	5	23%	3	27%	9	25%
Totals	3	100%	22	100%	11	100%	36	100%

This page is intentionally left blank

Appendix C: 'Medium' and 'High' priority actions overdue for more than three months

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
Medium priority						
Waste Contract 2017 -18	Places	Obtain evidence of the required bond or parent company guarantee	September 2019: The issue of the required Parent Company Guarantee or Performance Bond have now been separated from the other contractual issues / negotiations. Biffa have however, provided neither but a composite of the two. This is now the subject of external legal advice, which officers have received and are reviewing. Officers should be in a position to confirm the response to Biffa by end of Sept 19.	Places Director	08/12/2017	31/09/2019
Waste Contract 2017 -18	Places	Review performance measures and monitoring	September 2019 - a new monthly report is in place, focusing on key performance areas. These will be reflected in revised KPIs as part of a contract deed of variation, which should be finalised by end October 19.	Places Director	30/06/2018	31/10/2019
Highways contract 2016-17	Places	Develop approach to planning and recording of inspections	Being followed up as part of 2019/20 audit of Highways contract management. Following changes in personnel within the service area, actions being picked up and progressed.	Places Director	30/04/2017	To be confirmed
Delegated Services 2018-19	Places	Expand performance indicators and targets	September 2019 - new performance indicators and targets have been delayed due to uncertainty of available data following migration to the Peterborough-hosted APP Civica system, and subsequent intended migration to the web-hosted APP CX system. This is expected to be complete by end Nov 19, at which point new KPIs are expected to be in place.	Places Director	31/05/2019	31/11/2019
Delegated Services 2018-19	Places	Periodic spot checking of KPIs	September 2019 - this will commence once new performance indicators and targets are in place by November 19.	Places Director	31/05/2019	31/11/2019

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
High priority						
GDPR 2018-19	Resources	Produce a central record of data held at OEP and maintain a record of data	September 2019 – All service areas were asked to provide a log of data held in the archive by September 2019 but only one service area has supplied this information. A further deadline of 1 st October has been given and any failure to respond will be escalated.	Assistant Director of Resources	31/03/2019	31/10/2019

Appendix D: 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 eight responses received during the year to date are set out below.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment	-	-	8	-	-
Communication during Assignments	-	1	7	-	-
Quality of Reporting	-	3	5	-	-
Quality of Recommendations	-	1	7	-	-
Total	-	5	27	-	-

This page is intentionally left blank

Appendix E: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit undertakes 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 Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to 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 Internal Audit's attention.

Internal control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

Future periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

This page is intentionally left blank

INTERNAL AUDIT REPORT



PROCUREMENT CARDS 2018/19

Issue Date:	30 th April 2019	Issued to:	Sav Della Rocca – Strategic Director for Resources
Author:	Rachel Ashley-Caunt – Head of Internal Audit		Andrew Merry – Finance Manager
			Helen Briggs – Chief Executive (<i>final copy only</i>)
			CLlr Waller – Chair of Audit and Risk Committee (<i>final copy only</i>)
			CLlr Brown - Portfolio Holder for Finance (<i>final copy only</i>)

PROCUREMENT CARDS 2018/19 EXECUTIVE SUMMARY

1. INTRODUCTION & OVERALL OPINION

During 2018/19 the Council issued a number of procurement cards (PCards) to officers in order to facilitate efficient ordering of low value goods and services. At the time of reporting, there are 45 cards in use. In the first three quarters of 2018/19, a total of £46,828 was incurred via these cards and feedback sought from card holders was consistently positive in that it had enabled them to operate more efficiently.

In introducing the new cards, the Council implemented a Procurement Card policy which is clear and comprehensive and includes a number of rigorous controls for managing the risk of fraud and misuse. As the procurement card scheme has evolved over the last year, management have sought to revise the control environment to make this proportionate to the level of risk associated with the expenditure and to reduce administrative burden on card holders. It is acknowledged by management that, in doing so, they have raised the level of risk tolerance in relation to the card usage but the values associated with the cards are considered to pose a low organisational risk overall, with a maximum transactional limit of £100 in many cases. At the time of audit, the policy and card holder terms had not yet been amended in line with the revised approach and, as such, were inconsistent with the controls operating in practice.

The Finance team undertake a monthly review of overall expenditure on the cards and analyse trends. All cardholders have signed acceptance of the Council's policy, which clearly states that misuse can result in disciplinary procedures, and managers are expected to monitor the value of card use through standard budgetary control.

In certain settings, it has been acknowledged that the nature of some services is requiring one card to be accessible to multiple officers. In a number of cases, the Finance team have worked with these services to ensure appropriate record keeping is in place and appropriate controls are exercised. In such circumstances, the cardholder terms should also be amended to reflect this different type of use and provide guidance on suitable controls.

Each cardholder has the ability to review transactions on the cards in real time through the management system. This system does not reliably identify all VAT paid and a consistent approach to coding of VAT needs to be adopted.

Internal Audit Assurance Opinion					
Control environment	Satisfactory		●		
Compliance	Satisfactory		●		
Organisational impact	Minor		●		
Risk	Control Environment	Compliance	Recommendations		
			H	M	L
01 - Unauthorised access to Council cards	Satisfactory assurance	Satisfactory assurance	1	1	-
02 - Fraudulent or inappropriate use of cards by staff	Satisfactory assurance	Satisfactory assurance	-	-	1
03 - Inability to accurately report expenditure on procurement cards and reclaim VAT due	Satisfactory assurance	Satisfactory assurance	-	1	-
Total Number of Recommendations			1	2	1

2. SUMMARY OF FINDINGS

It is evident that the introduction of the procurement cards has assisted officers in operating more efficiently in ordering low value goods and has reduced reliance on, and the increased risks associated with, use of petty cash.

Whilst a comprehensive policy has been in place since the implementation of the cards, the policy and card holder terms have not yet been amended in line with the Council's evolved approach and risk tolerance and, as such, are inconsistent with the controls operating in practice. Arrangements are in place for the Finance team to monitor the cards' usage and strictly control the issuing of the cards but the operational controls are not consistent with those stated in the existing policy. It is acknowledged that the policy requires amendment to reflect the revised approach that has been adopted and evolved over the last twelve months. **Recommendation one** addresses this finding.

Risk 1: Unauthorised access to Council cards

In order to obtain a card, an application form must be approved and signed by the relevant manager and the Finance team. The form requires details of the justification for a card and, in approving the application, the manager accepts responsibility for taking any action in the case of abuse of the card. The manager and Finance must also sign to approve the application.

All card holders are required to sign acceptance of the Council's terms and conditions upon receipt of a card and these specify that the card must only be used by the named cardholder. The cardholder also agrees that 'in the event of my PCard being lost, stolen or compromised, I will immediately contact Lloyds Bank and Financial Services'.

The terms of agreement signed by each cardholder further state that should their employment with the Council cease for any reason – or should they no longer require a card - that they must return the card to the Council's Finance team. It is clearly stated on the acceptance form that the cardholder must understand the policy and be aware that any non-compliance with the policy or terms could lead to disciplinary procedures. The Finance team also receive notification of leavers to identify any cards requiring termination.

In sample testing, it was confirmed that all of the five cards selected:

- Had been allocated based on a signed acceptance of the terms and policy; and
- Were held by current, permanent members of Council staff.

It is noted that in one case within the sample that the nature of the service required the card to be accessible to multiple officers. It is noted that such shared use of certain cards is known by the Finance team and where they were aware of this have supported services to introduce records to ensure audit trails and secure storage. Where the cards are to be used in this manner, the terms agreed and guidance given upon issuing of the cards should reflect this. **Recommendation two** addresses this finding.

Risk 2: Fraudulent or inappropriate use of cards by staff

The Council's policy on use of PCards was produced and approved in 2018 ahead of the roll out of the cards. All cardholders have been required to sign acceptance of the policy and terms, including that any misuse/use for non-Council purposes may result in disciplinary procedures.

It is acknowledged that the Council is seeking to provide for efficiencies in the use of the cards and is thereby reducing burdensome controls and managerial review/approval given the low individual transactional limits in place. The risk of fraudulent use is currently being managed through review of statements by the Procurement Card Administrator and monthly analysis of trends and usage. This, alongside the deterrent enforced by the policy and disciplinary implications for misuse, have been considered by management as proportionate to the risk posed by the Council's card usage and its financial value.

The Council's current policy and terms require card holders to complete transaction logs every month, within two days of the statement close date, and to submit this along with supporting receipts to the 'reconciler/approver'. However, on the basis that the management system enables all transactions to be viewed in real time and the revised approach to monitoring spend that has been adopted, these are not currently produced. As above, the policy is due to be amended to reflect this.

In introducing the cards, the Council has reduced the use of petty cash – which can present a greater fraud risk - and provided greater transparency over expenditure in those areas previously reliant on petty cash. During testing of a sample of transactions, Internal Audit reviewed expenditure to form an opinion on whether the transactions were consistently on Council-related, appropriate use. Some items of expenditure were highlighted to the Finance team for further review but there were no instances identified where financial procedure rules had been breached.

Discussions with a sample of cardholders highlighted that less than half of those contacted access their card statement on a monthly basis. There is a risk, as such, that fraudulent transactions may not be identified and promptly reported to the card provider for recovery and investigation. The requirement to undertake this check is clearly stated in the policy and terms agreed by the cardholders. **Recommendation three** addresses this finding.

Risk 3: Inability to accurately report expenditure on procurement cards and reclaim VAT due

The Council publishes all PCard expenditure online, both in PDF and spreadsheet format. This includes details of the spend, the retailer, value and service area. At the time of audit, all three quarters of the latest financial year to date were available online.

The PCard Administrator also produces a monthly analysis which is provided to the Finance Manager including analysis of usage and spend.

The primary record of transactions is the management system. This system logs all transactions in real time but does not reliably identify all VAT elements of the transactions. As such, it is understood that the PCard Administrator primarily only codes out VAT for items purchased through the corporate Amazon account – for which VAT evidence is available. Given the value of transactions, the potential for unclaimed VAT is considered by the Finance team to be low.

In sample testing, £190 of unclaimed VAT was identified by Internal Audit from receipts which were held by the cardholders, across 13 transactions. It was also noted that for a further 13 transactions VAT had been coded out where there was no VAT receipt held to support this. This demonstrates the risk of making assumptions regarding the VAT status without supporting evidence and not adopting a consistent approach to coding in all cases. In the event of a VAT inspection there is a risk that unsupported VAT claims may be subject to recovery. There may be opportunity to request that cardholders share evidence of VAT eligible transactions with Finance and, in these cases, it should be claimed. The approach should remain consistent that in any case where evidence is not held by Finance no VAT should be claimed. **Recommendation four** addresses this finding.

3. ACTION PLAN

The following action plan provides recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

4. LIMITATIONS TO THE SCOPE OF THE AUDIT

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.

The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.

ACTION PLAN

48

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
1	The current Procurement Card policy includes a number of controls which are not applied in practice, since the risk tolerance adopted by the Council has been revised.	The policy should be reviewed to confirm that it clearly reflects expected practices and controls and is suitably and consistently enforced. The policy should also include version control and an owner.	Policy will be reviewed and amended to reflect the current operation	High	Finance Manager	June 2019
2	Where required by the service, certain cards are accessed and used by multiple officers, rather than just the named card holder. An example of this was identified in sample testing. Should any fraudulent expenditure be incurred on such a card, either by a member of staff or by a third party, there should be appropriate audit trails in place to enable robust investigation and accountability. The current card holder terms do not allow for shared use of cards and do not stipulate the controls expected.	If the Council is to amend the policy to enable shared use of cards in such circumstances, this must be aligned with requirements of the card provider and controls/procedures amended to manage this additional risk. Templates should be provided to teams where this is to be allowed, to ensure a full audit trail of card use and handling and the terms signed by these cardholders should reflect this use of the cards and guidance provided on expected controls.	Will be looked at in line with recommendation 1	Medium	Finance Manager	June 2019
3	Discussions with a sample of cardholders highlighted that less than half of those contacted had accessed their card statement on a monthly basis.	All card holders should be reminded of the need to review their card statements on a monthly basis so as to promptly identify any fraudulent spend which they have not incurred.	The recommendation will be looked at in line with recommendation 1	Low	Finance Manager	June 2019

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
	There is a risk, as such, that fraudulent transactions may not be promptly identified and reported to the card provider for recovery and investigation. The requirement to undertake this check is clearly stated in the policy and terms agreed by the cardholders.					
4	<p>The recoding of VAT over the last year has been inconsistent. Cases have been identified where VAT was recoverable but has not been coded out and other instances where VAT has been coded out and there is no supporting VAT receipt.</p> <p>As such, there is a risk that the Council is losing money through failing to recover VAT and may also be at risk of failing to demonstrate VAT status for some transactions where it has been coded out.</p>	<p>A mechanism should be in place to enable VAT to be consistently accounted for. This may include requesting that card holders notify Finance of any VAT eligible transactions over a certain financial value. Where such evidence is not received no VAT should be coded.</p> <p>It is understood that the Council is looking at possible finance system modules which could facilitate reliable VAT coding.</p>	<p>U4BW has a Pcard module and this will be reviewed to see how this can be used to improve controls.</p> <p>Will look at VAT coding as part of the review of the overarching policy</p>	Medium	Finance Manager	June 2019

49

GLOSSARY

The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The tables below explain what the opinions mean.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
Substantial	●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Good	●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
Limited	●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No	●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
Major	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
High	●	Action is imperative to ensure that the objectives for the area under review are met.
Medium	●	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low	●	Action recommended to enhance control or improve operational efficiency.