



RUTLAND COUNTY COUNCIL
INTERNAL AUDIT UPDATE
SEPTEMBER 2015

Date: 22nd September 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 2015/16 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 consortium, which it requires to engage in effective scrutiny.

Performance

2.1 Will the Internal Audit Plan for 2015/16 be delivered?

The Welland Internal Audit Consortium is currently under the management of LGSS. The Welland Board has set LGSS the objective of delivering at least 90% of the Internal Audit plans for 2015/16 to draft report stage by the end of March 2016.

At the date of writing, three final reports have been issued and work is in progress on a further eight assignments. Progress on individual assignments is shown in Table 1. By the end of September 2015, it is estimated that 38% of the audit plan will be completed to draft report stage and a further 20% of the assignments will be in advanced delivery stages.

Since the previous committee there has been one change to the audit plan. The review of Data Retention and Disposal has been deferred to 2016/17 and replaced with a review of the Oakham Enterprise Park, as requested at the last Audit and Risk Committee meeting and formally agreed with the Chair of the Committee.

The Audit Plan for 2015/16 was developed based upon the staff resource available within the established Internal Audit team. Since the Audit Plan was prepared, the resource available has reduced due to one Auditor taking maternity leave and an Audit Manager reducing their working hours under the Council's Flexible Working Policy. In order to ensure the delivery of the Audit Plans for all Councils within the Consortium, additional hours are being commissioned from another local authority's Internal Audit department and will be delivered during Quarter 3 and Quarter 4. On this basis, the resource will be in place to deliver the Audit Plan by the end of March 2016.

2.2 Are audits being delivered to budget?

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 Table 1.

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 91% 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. At the time of reporting, three questionnaires had been returned with an average score of 'Good'. See Appendix C for further details.

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, three audit reports have been finalised in relation to **Recruitment of Interims and Agency Workers, Kerbside Collections/TEEP Compliance** and **Capital Allocation Programme Board** and all reports provided Sufficient Assurance opinions. Based upon the findings and the actions agreed with management to address any identified weaknesses in the control environment, these would not currently reduce the Internal Audit Assurance opinion of the Council's overall Control Framework.

Copies of Executive Summaries from all three reports are provided in Appendix B.

2.6 Are clients progressing audit recommendations with appropriate urgency?

Outstanding audit recommendations now form part of the Quarterly Performance Report considered by Cabinet. Since the last Committee meeting, 16 actions arising from audit reports have been implemented.


At the date of reporting, there are 22 actions which are overdue for implementation. Two of the overdue recommendations are classified as high priority and were due for implementation over three months ago. See Appendices D and E for further details.









2.7 Update on Counter Fraud Activity

- The Council is launching an App to assist anyone wishing to report a fraud, which they suspect is connected to the Council. The App is free, secure and easy to use and completely confidential. It can be downloaded to any compatible device and is linked directly to a new Fraud email address. The Head of Corporate Governance is responsible for dealing with any reports made via this route.
- The Council is also working with colleagues across Leicestershire to develop a data hub. The hub, which will be hosted by Leicester City Council, will support a culture of shared data analysis as each partner uploads the data it holds into the central hub. This joined up approach will make it easier for partner organisations to detect fraud and take the appropriate action.

Both initiatives have been funded by the DCLG as a means of supporting Local Authorities in developing innovative approaches to countering fraud.

Table 1: 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	Final Report	Assurance Rating	Comments
Financial Risks										
Key Financial Controls	55	0								Quarters 3 & 4
Financial Governance & Transparency	7	0								Quarter 3
Fraud Risks										
Fraud Risk Review	15	0								Quarter 4
Service Delivery Risks										
Better Care Fund Monitoring	15	0								Quarter 3
Recruitment of Interim and Agency Staff	15	15							Sufficient	Final
Contract Procedure Rules Compliances	15	1								
Capital Allocations Programme Board	20	18							Sufficient	Final
Digital Broadband	15	0.3								

Assignment	Budget	Actual	Not Started	Planning	Field Work Started	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Kerbside Collections	15	14						●	Sufficient	Final
Oakham Enterprise Park	15	3			●					
Demand Led Budgets	20	11			●					
External Placements (Care Packages)	15	15			●					Fieldwork 95% complete
Care Act Implementation	20	0	●							Quarter 3
Public Health Budgets	15	5			●					
Limited Assurance Reports	15	0.7		●						Quarter 3/4
IT										
System Administration	15	0.1		●						
Contingency	15	0	●							Quarter 4
Client Support (Committee support, training, client liaison)	34	9								
Consortium Management	34	10.6								
TOTAL	370	102.7								

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.

Appendix B: Internal Audit reports finalised since last Committee Meeting – Executive Summaries

RECRUITMENT OF INTERIM AND AGENCY STAFF

EXECUTIVE SUMMARY

In 2014/15 Rutland County Council (RCC) incurred costs of £1,368,211 on interims and agency staff. Interims are consultants paid on a daily rate typically covering senior roles and commissioned outside of the Comensura framework. Agency staff mostly cover administrative and support roles and are sourced through agencies on the Comensura framework. Comensura is a company that manages the supply of temporary and contractor labour into large organisations in the public, private and not-for-profit sectors. The Council entered into a framework agreement with Comensura in September 2013.

The Council’s Senior Management Team (SMT) has agreed standard protocols and processes for recruiting interims and agency staff to ensure that all appropriate checks have been undertaken. Internal Audit sample testing highlighted, however, that these processes had not been consistently applied due to a lack of awareness or manager non-compliance. Internal Audit reviewed a sample of 15 individuals recruited through Comensura and 20 individuals recruited outside of Comensura and also interviewed eight line managers.

Whilst line managers are able to provide reasonable justification for recruiting interim staff, the Council is currently unable to demonstrate a suitable audit trail to confirm this. The introduction of a formal ‘Approval to Recruit’ form would ensure that justification is documented, clear accountability can be evidenced and the Council is provided with sufficient data to carry out a root cause analysis to determine why temporary agency cover is required. For recruitment to permanent posts, the Council policy requires the Chief Executive to approve all posts before advertising. It is noted that there is a different employment relationship between the Council and interim/agency staff compared to substantive posts.

RCC uses software (Agresso HR) for recording agency/interim worker details, however testing highlighted potential scope to further develop this system into a database for recording and retaining all correspondence and documentation in a secure central location.

The audit was carried out in accordance with the agreed Audit Planning Record (APR), which outlined the scope, terms and limitations to the audit. It is the Auditor’s Opinion that the current overall design and operation of controls provides **Sufficient Assurance**, as summarised below:

Internal Audit Assurance Opinion	Direction of Travel				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
01 - Non-compliance with statutory requirements and Rutland County Council’s policies and procedures.	Substantial Assurance	Sufficient Assurance	0	1	0
02 - Recruitment of Interims and Agency staff does not provide value for money.	Sufficient Assurance	Sufficient Assurance	1	4	2
03 - Insufficient management information regarding Interims and Agency staff, leading to poor decision making.	Substantial Assurance	Sufficient Assurance	0	1	1
Total Number of Recommendations			1	6	3

WASTE MANAGEMENT (TEEP COMPLIANCE)

EXECUTIVE SUMMARY

The EU Waste Framework Directive (WFD) requires all member states to implement measures to ensure that, from 1st January 2015, four key waste materials - paper, metal, glass and plastic - are collected separately from other waste for recycling. The Government initially specified (Waste Regulations 2011) that so long as these materials were collected separately from other waste, the collector had the choice of whether to collect comingled or separately. However, a judicial review led to an amendment to the regulations to state that separate collections are required where they are technically, environmentally and economically practicable (TEEP) and appropriate to meet the necessary quality standards for the reprocessing industry.

The Council has undertaken an assessment of its current waste collection methodology and concluded that the existing comingled collection system is compliant with the regulations. Internal Audit has reviewed controls in respect of the following key risks: the methodology applied in assessing compliance with the new regulations is flawed or not sufficiently robust to avoid challenge; and evidence and information used as part of the assessment is unclear, inaccurate or insufficiently robust to support the overall conclusion.

The Council's initial assessment was conducted prior to the publication of detailed guidance and was developed based on officers' interpretation of the regulations. The assessment is rational and proportionate and covers all key aspects of the TEEP requirements. It could be strengthened further with the inclusion of more evidence regarding the quality of recycled materials and ensuring a full and detailed audit trail to all supporting information and data.

Based on these findings, Internal Audit has concluded that an appropriate framework of controls is in place to provide **Sufficient Assurance** that the identified risks have been appropriately mitigated. Detailed findings are set out in section 2 below.

The audit was carried out in line with the scope set out in the approved audit planning record (APR). The assurance opinion is based upon testing of the design of controls to manage the identified risks and testing to confirm the extent of compliance with those controls, as summarised below.

Internal audit assurance opinion	Direction of travel				
	N/A				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1 - the methodology applied in assessing compliance with the new regulations is flawed or not sufficiently robust to avoid challenge.	Sufficient Assurance	Sufficient Assurance	0	1	1
Risk 2 - the evidence and information used as part of the assessment is unclear, inaccurate or insufficiently robust to support the overall conclusion.	Sufficient Assurance	Sufficient Assurance	0	2	1
Total Number of Recommendations			0	3	2

CAPITAL ALLOCATIONS PROGRAMME BOARD

EXECUTIVE SUMMARY

The Capital Allocations Programme Board (CAPB) was established by Cabinet in 2011/12 to oversee the effective allocation of capital funding to schools at a time when a major programme of investment under the Better Schools for All (BS4A) project was coming to an end. There are 21 schools in Rutland, most of which were Local Authority (LA) maintained at the time the board was established. Currently only seven schools are LA maintained and this number is expected to reduce to three or fewer by the end of the year.

The operation of a board of this nature is unusual. Whilst it adds an additional level of scrutiny and challenge to the allocations process, there is an increased risk of potential conflicts of interest and delays. Given the reducing number of LA maintained schools it would be an appropriate time to reconsider whether the boards continues to add sufficient value and objectivity to justify the costs and risks. If the board is to continue in its current form then some aspects of the associated governance arrangements need to be strengthened.

The allocation of funds was initially based on a formal and systematic process of scoring and prioritisation of projects based on a range of objective criteria. More recently, the approach has been less formal but plans are in place to develop a more robust approach linked to development of a comprehensive asset management plan.

Financial monitoring and reporting arrangements were confirmed as sound although maintaining the audit trail in respect of the use of section 106 funding could be improved.

Whilst the continuing value of the board is in need of review, the framework of controls currently in place provide **Sufficient Assurance** that the identified risks have been appropriately mitigated. Detailed findings are set out in section 2 below.

The audit was carried out in line with the scope set out in the approved audit planning record (APR). The assurance opinion is based upon testing of the design of controls to manage the identified risks and testing to confirm the extent of compliance with those controls, as summarised below.

Internal audit assurance opinion	Direction of travel				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1 - Inappropriate governance arrangements for the allocation and management of capital funds.	Sufficient assurance	Sufficient assurance	0	5	1
Risk 2 - Unclear or inappropriate basis for prioritisation and allocation of funds to specific projects.	Sufficient assurance	Sufficient assurance	0	2	0
Risk 3 - Failure to adequately manage and monitor the use of funds allocated via the Capital Allocations Programme Board.	Substantial assurance	Substantial assurance	0	0	1
Total Number of Recommendations			0	7	2

Appendix C: 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 3 responses received in the year to date are set out below.

Aspects of Audit Assignments	N/A	Outstanding	Good	Satisfactory	Poor
Design of Assignment			3		
Communication during Assignments		1	2		
Quality of Reporting			3		
Quality of Recommendations			2	1	
Total		1	10	1	

Appendix D: 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	6	67%	7	32%	3	43%	16	42%
Actions due within last 3 months, but <u>not implemented</u>	1	11%	7	32%	2	29%	10	26%
Actions due <u>over 3 months</u> ago, but <u>not implemented</u>	2	22%	8	36%	2	29%	12	32%
Totals	9	100%	22	100%	7	100%	38	100%

Appendix E: 'High' and 'Medium' 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)
High Priority						
Agresso 2014/15	Resources	<p>Internal Audit recommends controls are improved for setting up new user accounts and for ensuring they remain appropriate over time. In particular:</p> <p>a) Any new users and changes to user access privileges should be made on an agreed form and signed off by the line manager and Finance Manager (to ensure non-finance staff are not given inappropriate access to finance only functions).</p> <p>b) Managers should be asked to periodically confirm user access rights.</p>	<p>The outstanding part of this audit action is related to Managers being asked to periodically confirm user access rights.</p> <p>The new Agresso lead is working with the Finance team to develop a process for the review of Agresso roles, starting with those that have been identified as being core business roles that have most risk associated with them. This process will encompass periodic review of roles by Finance and also by team managers where relevant. It is anticipated that this process will be implemented during Quarter 3</p>	P&A Support Team Manager	November 2014	December 2015
ICT Project Management 2013/14	Resources	<p>A corporate approach to managing projects should be considered.</p> <p>ICT should be notified of all projects and expected outcomes so that ICT implications can be considered, even if project teams do not immediately think there</p>	The change in Interim Head of IT has delayed this work. The Council is implemented a new IT system, Liquid Logic, and has brought in external	Director for Resources	November 2014	December 2015

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
		are implications for infrastructure or ongoing support.	project management support. This will be used to inform future arrangements.			
Medium Risk						
Agresso 2014/15	Resources	<p>P&AS Team Manager to review and rationalise the number of 'roles' within the Agresso system, in particular:</p> <p>a) consider deleting the 1,830 roles that are not currently used; and</p> <p>b) review roles allocated to staff with access to aggregated cost centres and remove individual cost-centre roles to avoid duplication where necessary.</p>	A new action plan covering these audit actions and other core business changes has now been developed and reviewed by Resources DMT. Extra resource is now in place within the Agresso team to allow the senior member of the team to begin progressing these actions."	P&A Support Team Manager	December 2014	December 2015
Agresso 2014/15	Resources	P&AS Team Manager to seek clarification from the software supplier of the detailed nature of all items not currently logged within the system and ensures that formal management approval is recorded in respect of any items where logging is to remain turned off.	A new action plan covering these audit actions and other core business changes has now been developed and reviewed by Resources DMT. Extra resource is now in place within the Agresso team to allow the senior member of the team to begin progressing these actions."	P&A Support Team Manager	December 2014	December 2015
Disaster Recovery & Business Continuity 2013-14	Resources	Head of Business Support to ensure, in conjunction with the Director of Places (Development & Economy), that the ICT Disaster Recovery Plan is finalised, approved, cascaded and tested.	Work in progress	Interim Head of IT	March 2015	Ongoing

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
Early Years Performance Management and Funding 2014-15	People	<p>1) The code of practice should be updated to ensure that it has the most up to date information.</p> <p>2) Once updated, the code of practice should be sent to all early year providers with a revised contract which should be signed and returned</p>	<p>The Code of Practice has been replaced by Local Authority Statutory Guidance which will be issued to providers with their new contract. The DfE has not published a new Code of Practice.</p> <p>The majority of the contracts have been signed and returned to the Local Authority by the Early Years Providers. The procurement team are awaiting agreement from the legal team before contracts are signed by the AD and returned to individual EY Providers. The new guidance, replacing the Code of Practice, will be included.</p>	Interim Head of Lifelong Learning	April 2015	Ongoing
Early Years Performance Management and Funding 2014-15	People	<p>A cyclical programme of spot checks should be designed and implemented for early years providers to check the accuracy of their funding claims for two, three and four years olds. This should be risk based so that high risk settings are checked annually and low risk settings at least once every three years. Once designed, all providers should be informed that a spot check programme is in place.</p>	<p>The Head of Service for learning and skills needs to employ an independent audit team to implement this process.</p> <p>As the budget for Early Education Entitlement for 2, 3, and 4 Year olds is over a million we need to audit and spot check the funding is being used for</p>	Interim Head of Lifelong Learning	April 2015	Ongoing

Audit Title and Year	Service Area	Outstanding Action	Status Update	Officer Responsible	Original Date	Revised Date (if provided)
			the proposed purpose - the organisation of this has previously been outside of this team.			
Early Years Performance Management and Funding 2014-15	People	The Accountant for Early Years should issue all early year providers with an indicative budget at the beginning of each financial year which broadly reflects anticipated participation for 3-4 year old funding.	The Finance Manager will need to prepare and send out an indicative budget to all funded Early Years Providers. No updates provided since July 2015.	Interim Head of Lifelong Learning	April 2015	October 2015
Local Taxes 2014-15	Resources	Revenues & Benefits Manager to change password configuration parameters to ensure they are consistent with the ICT security policy.	Discussions with IT confirm that because Civica is a secondary system i.e. can only be accessed on Council network for which complex password etc is needed, this is not an issue. The Council is seeking Cabinet office approval for this.	Assistant Director Finance	April 2015	Ongoing
Local Taxes 2014-15	Resources	Revenues & Benefits Manager to develop arrangements with the ICT section to automatically notify the Revenues & Benefits team (and any other system owners / administrators) when staff leave the Council.	Time has been set aside to develop this process in July 2015.	Assistant Director Finance	April 2015	July 2015

Appendix F: 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.