

AUDIT AND RISK COMMITTEE

20th September 2016

INTERNAL AUDIT UPDATE

Report of the Head of Internal Audit

| | | | |
|--------------------------------|---|--|--|
| Strategic Aim: | All | | |
| Exempt Information | | No | |
| Cabinet Member(s) Responsible: | | Councillor Terry King – Leader and Portfolio Holder for Finance and Development | |
| Contact Officer(s): | Rachel Ashley-Caunt, Head of Internal Audit | Tel: 07824 537900 <u>rashley-caunt@rutland.gcsx.gov.uk</u> | |
| Ward Councillors | N/A | | |

DECISION RECOMMENDATIONS

1. That Members note the Internal Audit update report (Appendix A).
2. That Members approve the proposed amendment to the Audit Plan to incorporate a review of SEN Transport and remove the review of NDR and Council Tax Fraud.

1 PURPOSE OF THE REPORT

- 1.1 To update Members on the progress made in delivering the 2016/17 Annual Audit Plan and key findings arising from audit assignments completed since the last Committee meeting.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Update on Delivery of Internal Audit Plan

The progress made to date in delivering the 2016/17 audit plan is set out in Appendix A. At the time of reporting, two reports have been finalised, and fieldwork and planning is underway on a further nine assignments.

2.2 Implementation of Recommendations

- 2.3 Internal Audit request that officers provide updates on all open audit actions on a

monthly basis.

- 2.4 Since the last Committee meeting, nine recommendations have been implemented. At the date of reporting, there are two actions which are overdue for implementation, one of which is classified as medium priority and was due over 3 months ago. There are no overdue high priority audit actions as of 25th August 2016.

2.6 Amendment to Audit Plan

- 2.7 As requested at the July 2016 Audit and Risk Committee meeting, a review of SEN Transport has been planned and the terms of reference have been developed to set out the scope and approach to the audit. In order to incorporate this assignment within the 2016/17 Audit Plan, it is proposed that elements of the planned 12 day review of Council Tax and NDR Fraud controls are included in the in the Local Taxation audit with the 12 days dedicated to delivery of the SEN Transport audit.

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.
- 4.2 The Committee is asked to approve the proposed change to the Audit Plan in order to incorporate the requested SEN Transport review. Members may wish to propose an alternative amendment to the Plan to resource this review.

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 EQUALITY IMPACT ASSESSMENT

- 7.1 There are no equality implications

8 COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are no community safety implications

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 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

11 BACKGROUND PAPERS

11.1 There are no additional background papers to the report

12 APPENDICES

12.1 Appendix A: Internal Audit Update Report

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

12.3 Appendix C: Implementation of Audit Recommendations

12.4 Appendix D: 'High' and 'Medium' Priority actions overdue for more than three months

12.5 Appendix E: Limitations and responsibilities

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



RUTLAND COUNTY COUNCIL
INTERNAL AUDIT UPDATE
SEPTEMBER 2016

Date: 20th September 2016

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 2016/17 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 2016/17 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 2016/17 to draft report stage by the end of March 2017.

At the date of writing, two reports have been finalised, and work is in progress on a further nine assignments. Progress on individual assignments is shown in Table 1.

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. All assignments within the Audit Plan are currently within budget and no overspends are expected on current audits.

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

The most recent information available (week 21) shows that the Internal Audit team are spending 93% 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, no questionnaires had been returned for 2016/17 but feedback from the Director and Assistant Director for Resources is positive.

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, two audit reports have been finalised in relation to **Taxi Licensing** and **IT Asset Management**. Both have resulted in Sufficient Assurance opinions. Copies of the Executive Summaries are provided in Appendix D.

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.

The Internal Audit team also continues to provide consultancy support in the design and planning stage of the Agresso upgrade and has assisted in the production of process maps of key procedures and advising on the review of key controls within these.

The open book review of the Highways Maintenance Contract has been completed and the majority of the fieldwork has been delivered. The key findings to date are being discussed with management and once outstanding queries have been resolved a full report will be issued and summarised at the next Committee meeting.

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, nine actions arising from audit reports have been implemented.

At the date of reporting, there are six open audit actions, two of which are overdue for implementation. Both actions were due for implementation over three months ago, neither of which are categorised as high priority. See Appendices C and D for further details.

2.7 Are any amendments to the Audit Plan required?

As agreed at the Audit and Risk Committee meeting in July 2016, a review of SEN Transport has been planned for 2016/17. The scope and approach to the review has been documented within the terms of reference which have been shared with the Chair of the Committee to ensure all required areas of assurance have been incorporated.

In order to deliver the planned review, it is estimated that 12 days will be required from the Internal Audit team. In order to resource this, it is proposed that the planned review of Council Tax and NDR Fraud be removed from the Audit Plan and the 12 days assigned to this be used to deliver the SEN Transport review. This change has been proposed on the basis that a review of Local Taxation is also included within the Audit Plan and a lighter touch review of pro-active counter fraud controls can be incorporated within the scope of this audit, thereby providing some assurance over this risk area. This amendment to the Audit Plan requires approval by the Committee.

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 | Assurance Rating | Comments |
|--|--------|--------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|----------|
| Financial Risks | | | | | | | | | | |
| Creditors | 14 | 0 | ● | | | | | | | Q4 |
| Debtors | 14 | 0 | ● | | | | | | | Q4 |
| Local Taxation | 15 | 0 | ● | | | | | | | Q3 |
| Benefits | 15 | 0 | ● | | | | | | | Q3 |
| Payroll | 15 | 0 | ● | | | | | | | Q4 |
| Main Accounting | 12 | 0 | ● | | | | | | | Q4 |
| Financial System Upgrade (Consultancy support in design phase) | 15 | 10.8 | | | ● | | | | | |
| Financial System Upgrade (System Administration) | 12 | 0 | ● | | | | | | | Q3 |

| Assignment | Budget | Actual | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|---|--------|--------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|---|
| Fraud Risks | | | | | | | | | | |
| Council Tax/NDR Fraud | 12 | 0 | ● | | | | | | | Proposed cancel and re-allocate 12 days to SEN Transport |
| Service Delivery Risks | | | | | | | | | | |
| Highways Maintenance Contract | 20 | 17.2 | | | ● | | | | | Initial fieldwork complete, awaiting responses to outstanding queries |
| SEN Transport | 0 | 0.3 | | ● | | | | | | Proposed to re-allocate 12 days from Council Tax and NDR Fraud |
| Fostering Service | 15 | 5.3 | | | ● | | | | | |
| Contract Procedure Rules (CPR) compliance | 10 | 0 | ● | | | | | | | Q3 |
| Taxi Licensing | 15 | 11.5 | | | | | | ● | Sufficient | |
| Section 106 Agreements | 15 | 1.3 | | ● | | | | | | Q4 |
| Safeguarding Policies and Procedures and Compliance | 20 | 0 | | ● | | | | | | Q3 |
| Development Control | 15 | 0 | | ● | | | | | | |

| Assignment | Budget | Actual | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|--|--------|--------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|----------|
| Data Management | 15 | 0 | ● | | | | | | | Q3 |
| LiquidLogic | 15 | 5.1 | | | ● | | | | | |
| Digital Broadband | 5 | 0 | | | ● | | | | | |
| Limited Assurance Reports | 12 | 0 | ● | | | | | | | Q4 |
| IT | | | | | | | | | | |
| Asset Management | 12 | 9.3 | | | | | | ● | Sufficient | |
| Policies and Procedures | 10 | 0 | ● | | | | | | | Q4 |
| Client Support (Committee support, training, client liaison) | 33 | 12.3 | | | | | | | | |
| Consortium Management | 34 | 5.18 | | | | | | | | |
| TOTAL | 370 | 78.28 | | | | | | | | |

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. |

TAXI LICENSING 2016/17

EXECUTIVE SUMMARY

INTRODUCTION & OVERALL OPINION

The Council should set and ensure compliance with appropriate Taxi and Private Hire licence conditions to help maintain the safety of residents. Taxis are regularly used to transport children to school and are heavily relied upon by elderly and disabled users. It is therefore critical that effective safeguarding arrangements are in place to ensure vehicles and drivers are fit for purpose. Taxi licensing was last reviewed by Internal Audit in 2012/13 and resulted in a limited assurance report, primarily due to delays in obtaining Disclosure and Barring Service (DBS) checks.

The 2016/17 audit reviewed three key risks relating to licensing of vehicles (taxi and private hire), licensing of drivers (taxi and private hire) and licensing of private hire operators. The overall procedure and related framework was found to be robust with no significant issues or areas of non-compliance identified.

The Council has in place a key document outlining the requirements to apply for licences. This is entitled the "Policy Guidance Note. For Assisting in the determination of the Fitness of an Applicant to Hold a Licence to Drive a Hackney Carriage or a Private Hire Vehicle or to operate Private Hire Vehicles Within Rutland", although in reality this is actually a *procedure* rather than a *policy*. The procedure also outlines the conditions that must be abided by once the licence is issued along with guidance on when a licence should be suspended, withdrawn or an application refused. Whilst the procedure is comprehensive, it is not clear when it was set, last reviewed or who approved the document (officers or members) and some references require updating.

Applications for licences and associated documents are checked by an experienced officer, who also carries out vehicle checks. Information is provided to applicants via the Council's website but some inconsistencies between website information and the Council's procedure document were identified, and a recommendation has been made to ensure effective communication.


Sample testing was carried out on the different taxi and private hire licence types and no issues were identified. Required documentation had been checked and retained on file where appropriate and all checks had taken place prior to licences being issued. The licensing system generates reminders as to when renewals are required to allow licence holders to be notified in adequate time to renew their application without delays.

The Council has recently developed a new Driver Suitability test which includes testing of awareness of Child Sexual Exploitation (CSE). It is currently unclear how effective this new control will be as only new applicants are required to take the test and not those renewing their licence, and with the low turnover in drivers and operators in Rutland, this excludes the majority of applicants. At the date of audit testing no drivers had been required to take the test as it had only been introduced on 1st June 2016. It was noted that the test relating to awareness of CSE could be more robust and is not a 'pass/fail' test.

The audit also determined that the Council's procedure document should be reviewed in terms of the guidelines set on applicant convictions, to ensure that requirements are in line with current risk appetite and in order to help safeguard the community. For example, under the current procedure a licence can be granted to a driver who has been convicted of indecency offences as long as the offence was five years ago or more.

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 in table 1:

Table 1: Assurance opinion

| Internal Audit Assurance Opinion | Direction of Travel | | | | |
|---|---|------------------------------|-----------------|----------|-----------------------------------|
| Sufficient Assurance |  | | | | |
| Risk | Design | Comply | Recommendations | | |
| | | | H | M | L |
| 01 - Licensing and control arrangements do not ensure that licensed vehicles are roadworthy, meet regulatory requirements and are properly equipped. | Sufficient Assurance | Substantial Assurance | 0 | 0 | 2 Note - these cover all risks |
| 02 - Licensing and control arrangements do not ensure that only 'fit and proper persons' are licensed as drivers. | Sufficient Assurance | Substantial Assurance | 0 | 2 | 0 |
| 03 - Licensing and control arrangements do not provide assurance that private hire operators are complying with statute and regulations. | Sufficient Assurance | Substantial Assurance | 0 | 0 | 0 |
| Total Number of Recommendations | | | 0 | 2 | 2 |

IT ASSET MANAGEMENT 2016/17

EXECUTIVE SUMMARY

INTRODUCTION & OVERALL OPINION

An accurate and complete ICT Asset Register should support the IT Team in exercising effective control over hardware and software owned by the Council. This should include complete, accurate and updated records of ICT equipment and software applications. In 2014/15, Internal Audit delivered a review of ICT Asset Management and highlighted a number of areas for improvement. The 2014/15 audit resulted in an opinion of Limited Assurance over the control framework in place. As such, a full follow up review was included in the 2016/17 Internal Audit Plan to provide assurance over the effectiveness of improvements made and whether these have are now fully embedded in practice.

This review has highlighted areas where internal controls have been strengthened and further key controls have been introduced. The Council now benefits from asset management software which enables the IT team to track usage and identify inactive user accounts and assets and regular spot checks are also being conducted to verify the records held.

Sample testing confirmed that 89% of entries reviewed within the Asset List were fully accurate and up to date at the time of testing. The remaining entries related to a laptop which was listed on the Asset List as held by an agency worker no longer employed by the Council and additional assets which were held by an officer which were not suitably included on the Asset List. A procedure is in place to ensure that the IT team is notified of officers leaving the organisation and that all assets assigned are returned to the IT team and recorded accurately, but it was highlighted that this is not currently operating consistently in relation to agency workers.


A comprehensive software applications register has now been produced to list all applications in use across the organisation and provide details of these including dates for renewal and licensing information. At the time of review, this register contains a total of 46 applications but remains a work in progress with some fields still to populate.

Work is also underway to reconcile the licences held for applications against the number of users/devices with use of the software. A risk based approach has been adopted by the Head of IT and work began with the systems where the greatest risk lies, such as Microsoft applications. This exercise to date had highlighted incidences of both under and over licensing, demonstrating the value of these checks, and these issues are being addressed by the IT team.

Reconciliations for wider Council systems have not yet been conducted but once all controls are embedded it is intended that annual checks will be undertaken. Limited sample testing by Internal Audit highlighted some areas for investigation highlighting the need to ensure this is enforced to address any under or over licensing.

The audit was carried out in accordance with the agreed Audit Planning Record (APR). It is the Auditor's Opinion that the current overall design and operation of controls provides **Sufficient Assurance**, as summarised in Table 1:

Table 1: Assurance opinion

| Internal Audit Assurance Opinion | Direction of Travel | | | | |
|---|---|----------------------|-----------------|----------|----------|
| Sufficient Assurance |  | | | | |
| Risk | Design | Comply | Recommendations | | |
| | | | H | M | L |
| Risk 1: Theft, loss and misuse of Council ICT equipment and data. | Substantial Assurance | Sufficient Assurance | - | 3 | 3 |
| Risk 2: Failure to manage the software in use on ICT equipment across the Council. | Sufficient Assurance | Sufficient Assurance | - | 3 | 1 |
| Total Number of Recommendations | | | 0 | 6 | 4 |

APPENDIX C

| | ‘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 | 0 | 0% | 6 | 86% | 3 | 75% | 9 | 82% |
| Actions due within last 3 months, but <u>not implemented</u> | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Actions due <u>over 3 months</u> ago, but <u>not implemented</u> | 0 | 0% | 1 | 14% | 1 | 25% | 2 | 18% |
| Totals | 0 | 0% | 7 | 100% | 4 | 100% | 11 | 100% |

APPENDIX D

| Audit Title and Year | Service Area | Outstanding Action | Status Update | Officer Responsible | Original Date | Revised Date (if provided) |
|---|--------------|--|------------------|---------------------|---------------|----------------------------|
| Medium Priority | | | | | | |
| 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 | Head of IT | March 2015 | September 2016 |