

**Rossendale Borough Council**

**Internal Audit Service**

**Internal Audit Plan 2011/12**

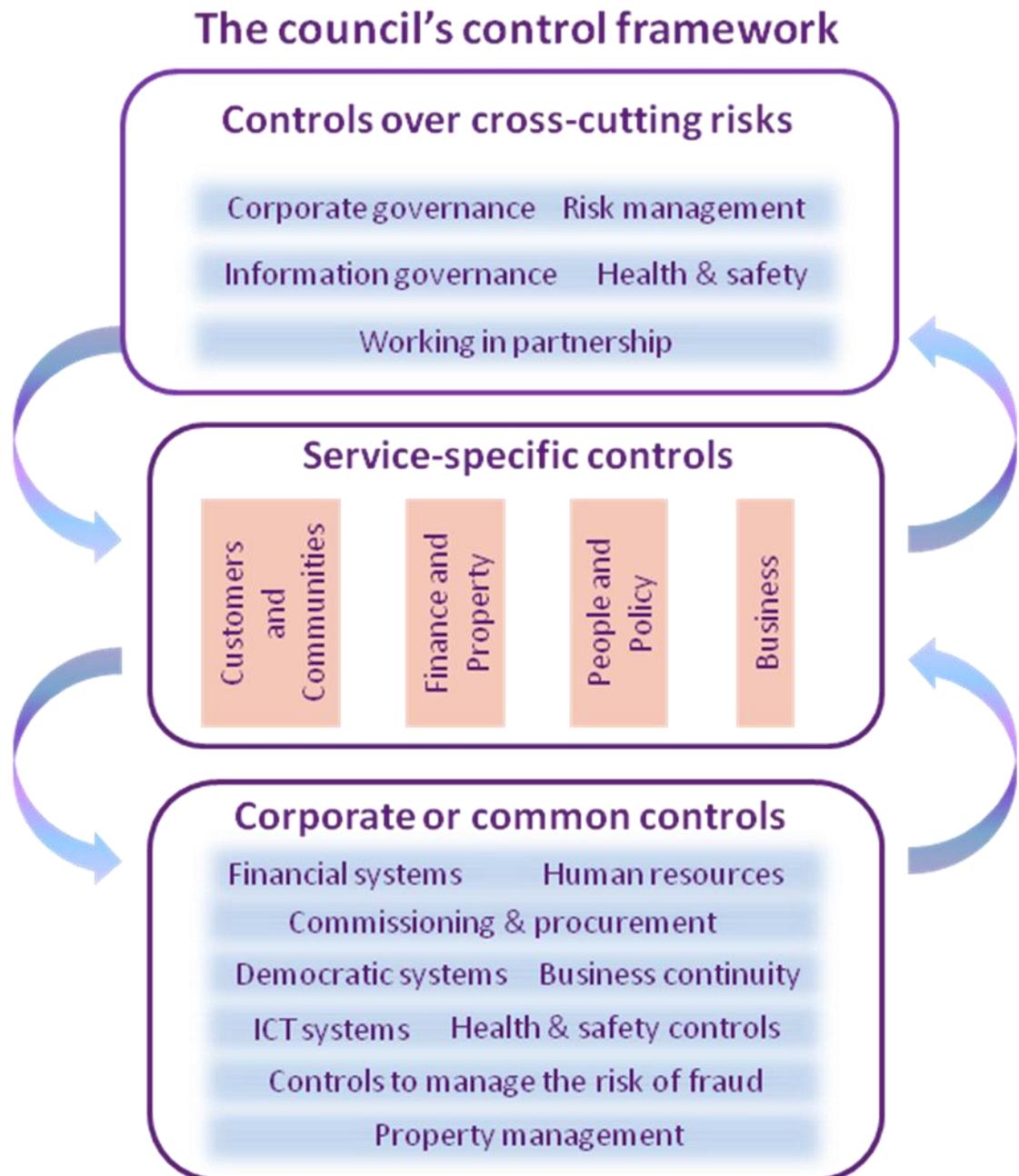




## 1. Executive summary

- 1.1 The management team is invited to consider the annual internal audit plan for Rossendale Borough Council for 2011/12. It is intended to provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled.
- 1.2 This draft plan amounts to a total resource input to the council of **260 audit days** (2010/11: 280 days).
- 1.3 The council is responsible for a wide range of services across the borough and senior management will be aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 1.4 The chief executive, Audit and Accounts Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 1.5 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Audit Service may provide it, and this forms our annual audit plan.
- 1.6 The plan recognises and aims to provide assurance over a selection of the following controls:
  - Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
  - Corporate common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the risks of its day to day operations that are operated in common across the whole organisation.
  - Service-specific controls: The controls designed to manage the risks arising in individual service areas.

- 1.7 These form the building blocks of our audit plan, and can be illustrated as shown below.



## **2. The planning process**

- 2.1 The key risks to the council are documented in the corporate risk register held on the Covalent system, and the Audit Service has considered these risks including seeking to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls. These are the controls over which the council needs greatest assurance.
- 2.2 Proposals for audit coverage have been made relating to those elements of the plan directed at specific service areas and corporate system reviews.
- 2.3 On this basis, we have made an assessment of the assurance we need to provide to the council during 2011/12. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment. Input from the management team is sought specifically to ensure that we prioritise our resources most effectively.

## **3. The council context**

- 3.1 Even more so than in any other recent year, the council is facing unprecedented challenges and change. The need to make additional savings of £1 million by 2014/15 over and above efficiency savings of £1.616 million required to date are likely to have a fundamental impact on the council and this must be reflected in the work of the Audit Service. Significant savings will still be required in the medium term to bridge the anticipated financial gap.
- 3.2 The changes required will have a considerable impact on the council's services and their related risks, and must alter the way corresponding controls are operated. It may be necessary to redesign control frameworks as resources are reduced and services change, and the need for assurance over the council's underlying controls will rarely have been greater.

## **4. The Audit response**

- 4.1 In a time of such fundamental change the Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 4.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value. We will also support management in specific pieces of work to assess areas where costs may be reduced.

- 4.3 The Audit Service also provides management with a counter fraud service and our audit plan integrates our assurance work with our counter fraud work, particularly in areas susceptible to fraud and misappropriation of assets.
- 4.4 We therefore intend to ensure that we continue to use our resources as effectively as possible, providing the council with the assurance it needs as well as additional consultancy where required and counter fraud support.
- 4.5 In addition to the direct assurance we are able to provide over Rossendale Borough Council's processes, as internal auditors to Lancashire County Council (including Lancashire County Developments Limited) and other partner organisations such as Regenerate Pennine Lancashire, we may be able to provide wider assurance than might otherwise have been possible over both county-wide and other specific activities that have a relevance to Rossendale Borough Council.

## **5. Deployment of audit resources**

- 5.1 This audit plan is stated in terms of estimated days input. However neither the resources available nor the exact time that will be taken for any single piece of audit work is capable of exact estimation. The plan therefore represents only a best estimate of the audit resources and the ways in which they will be deployed.

### **A reduced but flexible audit plan**

- 5.2 The resources available to the Audit Service have been reduced over recent years, but subject to agreement of our planned resource input, it is unlikely that reduced resources will prejudice our ability to deliver a service consistent with CIPFA's definition of internal audit in its Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. However it is vital that our resources are deployed as effectively as possible, and the audit plan must therefore focus on specific key areas of risk to ensure maximum benefit from the level of audit resource.
- 5.3 Although the annual plan enables both managers and members to see the overall scope and value of the audit work, work is ongoing throughout the year. A small number of audit reviews therefore inevitably straddle the year end as work continues to complete them, and some time will be spent on this work.
- 5.4 Any additional work will be undertaken at the expense of other planned areas of work, however, since the plan is at best an estimate it will be sufficiently flexible to change during the year. We will continually reassess our resources against the council's priorities and we will amend the plan throughout the year as required.

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- 5.5 We appreciate that the council is aiming to achieve an audit plan of around **260** days and request management team's input to prioritise our work to provide the assurance most needed. A selection of potential areas is given below, notwithstanding any additional areas identified by management team as part of the planning process:

<b>CONTROLS ASSURANCE</b>		<b>Estimated audit days</b>	
<b>Controls over cross-cutting risks</b>			
Corporate governance	20	70	
Information governance	18		
Working in partnership – (health, leisure, communities)	32		
<b>Service-specific controls</b>			
Contract management – Service Assurance Team	15	25	
Elections – financial administration	10		
<b>Corporate common controls</b>			
Financial system controls	95		95
<b>Total audit plan</b>			
Management of the Audit Service	30	55	
Follow up of completed reviews	15		
Contingency	10		
<b>Total audit plan</b>			
Counter fraud (including National Fraud Initiative)	15		15
<b>Total resource for the council</b>			<b>260</b>

Each of these potential areas is explained in more detail below.

## **6. Controls over cross-cutting risks**

6.1 There are a number of areas of control that are applicable across all or most of the council's work. They are generally corporately owned areas of policy and strategy rather than transactional processes, such as corporate governance arrangements. The scope of potential reviews in these areas is provided below. We will also continue our on-going involvement and support to the development of risk management and good governance across the council.

### **Corporate governance**

6.2 The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community.

6.3 We previously reviewed the council's corporate governance framework in 2007 and propose to reassess the arrangements in this area as part of the 2011/12 plan. This could consider arrangements around officers and councillors registers of interest, gifts and hospitality arrangements, third party disclosures and customer complaints. Maintaining effective internal controls in these areas contributes to the council being able to demonstrate good governance through the upholding of high standards of conduct and behaviour.

6.4 We also propose to review councillor's allowances and consider the adequacy and effectiveness of controls in place to mitigate the risk of incorrect or inaccurate expense claims being paid to councillors.

6.5 An audit review of the arrangements surrounding gifts and hospitality and register of interests will consider controls in place to mitigate the potential reputational risk to the council of improper conduct by councillors and officers, and non compliance with legislation. This will also include an assessment of processes in place to verify the accuracy of the related party transactions and declarations of interest by both councillors and officers.

6.6 There is a possibility that the savings targets and efficiencies identified by the council to reflect reduced resources may lead to increased complaints. It is therefore increasingly important that the council's processes and procedures are robust in dealing with such complaints, and therefore we propose to examine whether complaints are processed and dealt with in accordance with established procedures.

### **Information governance**

6.7 Access to reliable information has become an indispensable component of conducting business and there is an increased need to focus on the

- overall value of information protected and delivered. There is a fine balance to maintain between keeping information safe and accurate, and sharing it.
- 6.8 The council holds and processes significant volumes of personal and sensitive information and whilst there is an increasing emphasis on the electronic delivery of services and storage of information a significant proportion of information continues to be processed in more traditional manual formats.
- 6.9 Notwithstanding the potential loss of confidence in the council that could arise from a significant loss of data, since April 2010 the Information Commissioner's Office can order organisations to pay up to £500,000 as a penalty for serious breaches of the Data Protection Act, and has already issued significant fines under this power.
- 6.10 We have previously undertaken a review of ICT service management, and review of the wider information governance framework of policies, principles and procedures based upon recognised good practice is proposed. These should underpin the information security arrangements adopted within ICT Team and are required to maintain this compliance in the long term and manage the more general information risks of the council. We therefore intend to assess the information governance arrangements in place across the council, comparing the council's arrangements to best practice standards, ensuring key information risks are appropriately managed, and that arrangements are in place to treat those risks.

**Working in partnership – health, leisure, and communities**

- 6.11 The council plays a significant partnership role alongside a wide range of organisations in driving change across the Borough. It is appreciated that the council cannot improve outcomes alone and a partnership approach is required with other public and third sector organisations to overcome particular issues.
- 6.12 Internal audit work will aim to confirm the role of the council is clear and understood in its partnership working around public health, leisure provision, and community engagement. We will also seek to assess how effective the council is in using its position to influence the potential action required to achieve particular objectives.
- 6.13 Working with other organisations generates risks of its own, and this review will also examine the ways in which the risks to both the council and to the respective partnerships are appropriately identified, assessment, managed, and reported upon.

## **7. Controls over service-specific risks**

### **Contract management – Service Assurance Team**

- 7.1 The council delivers some of its services through partnership and outsourcing arrangements; including the Revenues, Benefits and Customer Contact services operated by Capita Business Services and the provision of leisure services through the Leisure Trust.
- 7.2 Arrangements with the council's external service providers are managed through formalised and agreed contracts and service level agreements which incorporate specific performance targets and Key Performance Indicators (KPIs). Having previously examined arrangements relating to the Leisure Trust, our proposed review in 2011/12 will involve assessing the arrangements in place to manage the council's key contractual arrangements via the Service Assurance Team and the controls in place to monitor and report performance on an ongoing basis.

### **Elections – financial administration**

- 7.3 Electoral Services ensure that all eligible residents within the Rossendale borough are given the opportunity to vote in any elections: local, parliamentary, European or referenda. Local elections relating to one third of the Council's seats are due to be held on 5 May 2011, alongside a referendum on the voting system.
- 7.4 The administration of local elections is resourced by the council although external funding is received for other elections, some of which is received in advance and the remainder subject to a post-election claim requiring supporting documentation to be provided.
- 7.5 We propose to examine the adequacy and effectiveness of controls in place surrounding the financial administration of elections, in particular those relating to budget forecasting, payments to election officials, the reclaiming of incurred costs, and the eligibility of election expenses.

## **8. Corporate common controls**

- 8.1 The council's work is underpinned by controls that manage the risks of its day to day operations that are operated in common across the whole organisation. These controls fall into a number of key areas, including financial and ICT controls, human resources controls, and procurement.

### **Financial control systems**

- 8.2 Financial control is a key element of the council's overall control environment and the core financial systems under-pinning the operations of the council must therefore be considered in our risk-based audit plan. We have identified the core financial systems and agreed them with the

head of finance and property services, and the Audit Commission. They include the payroll system, accounts payable, accounts receivable, cash and banking, council tax, housing benefits, National Non-Domestic Rates (NNDR), asset management, general ledger and treasury management.

- 8.3 We have gained a thorough understanding of these systems and have previously documented them. During 2011/12 we intend to concentrate predominantly on compliance testing the key controls, using both traditional systems-based testing and computer assisted audit techniques wherever possible. We will aim to ensure that our testing includes transactions relating to all of the council's services.
- 8.4 Whilst the focus of our work will be more heavily weighted towards a programme of controls testing, we still intend to provide the resources to consider any new systems and system developments as they are brought into operation.
- 8.5 A separate schedule of proposed work relating to financial control systems is given at Appendix 1 below.

## **9. Follow up reviews**

- 9.1 Where not undertaken elsewhere within planned audit coverage, resources have been earmarked to ensure that all previous reviews are followed up and our opinions are re-assessed as the actions previously agreed with management are implemented. In 2011/12 follow-up reviews will be undertaken in relation to:
- Waste and recycling;
  - Licensing;
  - IT service management; and
  - Community Leisure Association of Whitworth (CLAW) financial controls.

## **10. Other areas within the audit plan**

- 10.1 An allocation of 30 days has been set aside to cover other management and tasks in support of the internal audit service to the Authority:
- Liaison with the senior management team and the Audit Commission;
  - Central reporting (annual and periodic progress); and
  - Attendance, support, and reporting to the Audit and Accounts Committee as required.

### **Controls to manage the risk of fraud**

- 10.2 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years made available an investigatory service to support management in responding to instances of suspected fraud or impropriety. Three members of the Audit Service hold CIPFA's investigative practices qualification, and can be called upon where required, including as part of the council's published whistle-blowing procedures.
- 10.3 A provision for investigatory work of 15 days will be made available during 2011/12, and will also include coordinating the council's investigations of data identified by the Audit Commission's National Fraud Initiative.

### **National Fraud Initiative (NFI)**

- 10.4 Since 1996 the Audit Commission has run the NFI, an exercise that matches electronic data within and between audited bodies to prevent and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.
- 10.5 The Audit Service will co-ordinate NFI related work and ensure the accurate and timely preparation and submission of data for matching purposes. Upon receipt of data matches and results from the Audit Commission internal audit will manage the process for dissemination of results to relevant persons and ensure these are investigated and reported within pre defined timescales. If these checks reveal instances of fraud internal audit will be available for any subsequent fraud investigation.

## **11. Audit resources**

An outline of planned resource input is provided as follows:

	% input	Days
Head of Internal Audit	1	2
Principal Auditor	8	21
Senior Auditors (including ICT)	18	46
Auditor	22	59
Audit team members (including ICT)	51	132
<b>Total</b>	<b>100</b>	<b>260</b>

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**Appendix 1**

**Financial control systems**

System	Planned audit days	Proposed scope of the review
Accounts Payable	15	A review of the adequacy of the accounts payable procedures operated within the council and to consider whether these are effective in ensuring that the ordering and payment processes are valid, accurate, and timely.
Accounts Receivable	15	A review of the adequacy of the key accounts receivable procedures operated within the council and to consider whether these are effective in ensuring that the invoice raising and debt management processes are valid, accurate, and timely.
Payroll	8	This review will consider the effectiveness of key controls and procedures in place within the payroll function to ensure the timely and accurate payment of wages and salaries to employees; and will also involve assessing progress with the recommendation raised as part of our 2010/11 review.
General Ledger & Budget Monitoring	7	This review will assess the effectiveness of key controls surrounding the council's general ledger and budget monitoring system including confirmation that the controls surrounding the Storage Area Network (SAN) implemented in 2010 continue to operate effectively. We will also perform a follow-up review of previous audit recommendations in this area.
Cash Collection & Banking	10	Our review of cash collection and banking in 2010/11 involved an assessment of controls within the Building Control and Land Charges services. In 2011/12 two alternative service areas will be selected to consider the adequacy and effectiveness controls and processing procedures in relation to the collection and banking of income. The review will ensure that all money paid to the council is promptly and correctly accounted for. The two areas subject to review will be discussed and agreed with management as part of the audit planning process.
<b>Sub total</b>	<b>55</b>	

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**Financial control systems (contd)**

System	Planned audit days	Proposed scope of the review
Council Tax	10	A review of the adequacy and effectiveness of key controls and procedures in place for the timely and accurate collection and recording of income due to the council in respect of council tax.
Housing Benefits	5	Our 2010/11 review of housing benefits involved an assessment of procedures that relate to the control and administration of the housing and council tax benefit system at the Council. In 2011/12 a follow up review of our previous audit recommendations will be performed including testing of key controls.
National Non Domestic Rates (NNDR)	5	We will undertake a review of the key procedures within the NNDR system and follow-up the recommendations raised as part of our previous review in 2010/11.
Treasury Management	10	A review of the adequacy and effectiveness of controls and procedures in place to ensure investments and borrowing undertaken by the council is in accordance with legislation and best practice guidance.
Asset Management	5	In 2010/11 a review of the council's asset management arrangements including the development and implementation of strategic asset management plans was undertaken. In 2011/12 we propose to follow up the recommendations raised in our previous review and ensure the key controls are operating effectively.
Contingency	5	A small provision has been made to respond to unforeseen issues should they arise.
<b>Total</b>	<b>95</b>	