

Subject:	Annual Internal Audit Plan 2014/15	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	24 June 2014
Report of:	Head of Internal Audit	Portfolio Holder:	Finance and Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Community Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: No	Attached:	No
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1.	RECOMMENDATION(S)
1.1	Members are asked to approve the internal audit annual plan for the period 1 April 2014 to 31 March 2015.

2. PURPOSE OF REPORT

- 2.1 The Audit and Accounts Committee's terms of reference require it to advise the council on the planned activity and results of internal audit. The Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) state the Audit Committee is required to approve, but not direct, the internal audit plan.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- The plan enables the Leader and Chief Executive to report in the Annual Governance Statement.
 - The plan ensures the council is able to progress in matters of Financial Management.
 - Failure to produce an annual plan would undermine confidence in the unit and its ability to provide the Authority with the necessary level of assurance in relation to their business risks.

5. BACKGROUND AND OPTIONS

- 5.1 Appendix A sets out the plan of work to be undertaken by the Authority's internal audit service for the 2014/15 financial year.
- 5.2 The plan is intended to provide assurance to the Chief Executive and Leader of the Council

who are jointly required to sign the Annual Governance Statement, which is published with the financial statements.

5.3 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires that:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

Furthermore, Regulation 6 requires that:

"A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."

The responsibility for maintaining the system of internal control and for implementing risk management arrangements clearly rests with the Authority. However the process by which the Annual Governance Statement is made includes obtaining assurances on the effectiveness of key controls and, in practice, these will be substantially drawn from the work of internal audit as well other assurances available to the Authority.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Any financial implications arising are noted in the report.

7. MONITORING OFFICER

7.1 Any legal implications are commented upon in the report.

9. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

9.1 RBC Senior Management Team, relevant Heads of Service, and Authority's external auditors.

10. CONCLUSION

10.1 The plan is largely focused on an assessment of the risks to the achievement of the Authority's objectives, and the provision of assurance that the actions planned to mitigate these risks are adequate and effective.

**Rossendale Borough Council
Internal Audit Service**

Internal Audit Plan 2014/15



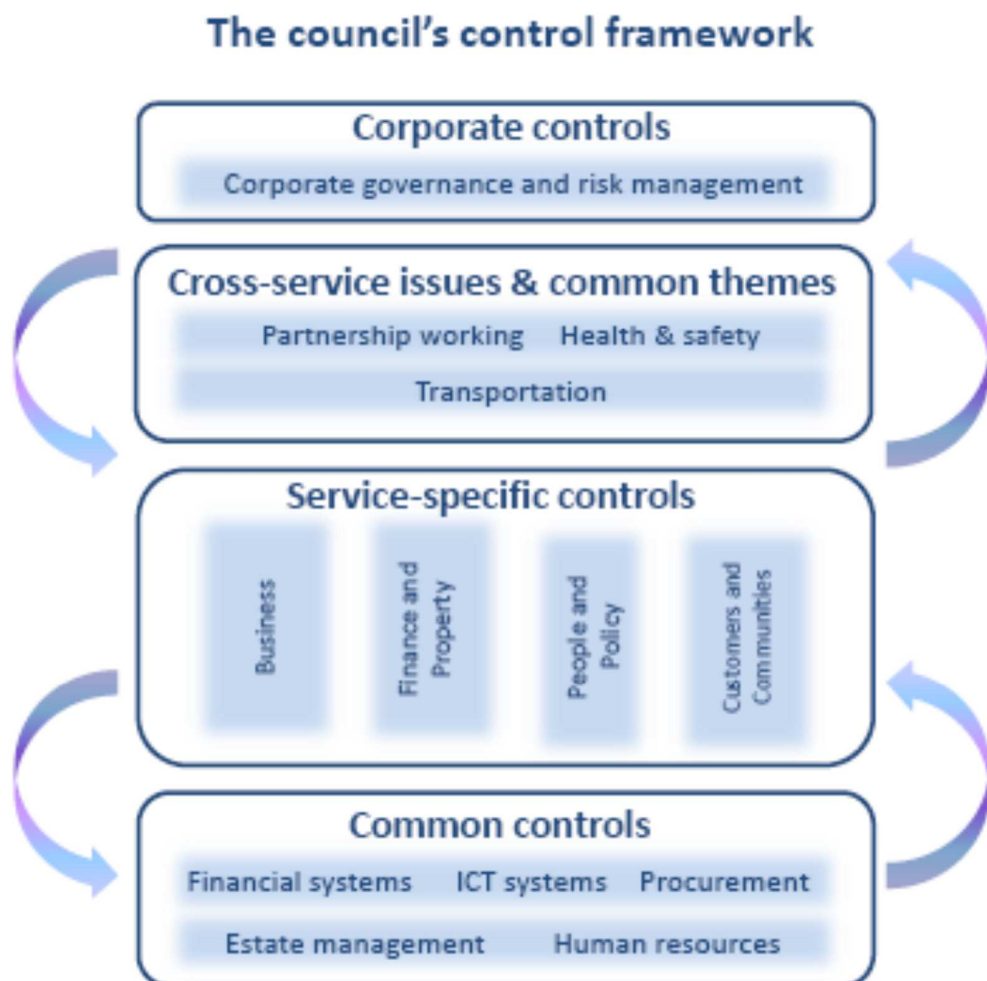
1. Executive summary

- 1.1 The management team is invited to consider the annual internal audit plan for Rossendale Borough Council for 2014/15. 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 **225 audit days**, which is equivalent to the 2013/14 plan. The audit plan has been reduced in recent years to reflect the financial challenges facing the council and was 260 days in 2011/12.
- 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 Internal 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:
 - Corporate controls: These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance, risk management, and information governance.
 - Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams. Very few risks are managed by a single corporate solution but similar controls may be

implemented across a number of teams to address the same or similar risks.

- Service-specific controls: The controls designed to manage the risks arising from the provision of particular services and from individual service areas.
- 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 elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

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



2. The planning process

- 2.1 For the previous financial year (2013/14) we based our audit plan on the council's risk register. However our subsequent audit of the risk management process identified some weaknesses with this process and in particular the fact that risks were not being updated on a regular basis. Our 2014/15 audit plan is therefore not based on the council's risk register but has been developed following an analysis of key functions of the council and reviewing our coverage of operational areas in past years.
- 2.2 Not all of the significant areas can be covered due to our resource constraints but the areas not covered by this year's plan will be considered for future year's plans.

3. Deployment of audit resources

- 3.1 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 flexible audit plan

- 3.2 The resources available to the Internal 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.
- 3.3 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.
- 3.4 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.
- 3.5 Following our discussions with the extended management team and subsequently with individual senior managers, we have set out below the proposed audit coverage for 2014/15 in order to provide assurance over the most significant areas:

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for management discussion

CONTROLS ASSURANCE	Estimated audit days	
Corporate controls and cross-service issues		
Risk management	5	5
Service-specific controls		
Members allowances, expenses and interests	5	47
Local Land Charges	10	
Elections	12	
Business continuity (IT and non IT controls)	20	
Corporate common controls		
Financial system controls	95	110
Follow up of completed reviews	15	
Other		
Management of the Audit Service	30	63
Counter fraud (including National Fraud Initiative)	15	
Contingency	18	
Total resource for the council		225

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

Corporate controls and cross-service issues

- 3.6 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 risk management and corporate governance arrangements. The scope of potential reviews in these areas is provided below.

Risk management

- 3.7 Each year, we are required to give an overall opinion on the adequacy of internal control from the audit work that we have undertaken. As part of this, we need to assure ourselves that the council is focussing on key risk areas that may impact upon the achievement of its stated objectives.
- 3.8 We therefore intend to undertake an assessment of the risk management arrangements made in practice following up on our 2013/14 audit findings.

Controls over service-specific risks

Members allowances, expenses and declaration of interests

- 3.9 Whilst the total value of members expenses and allowances will be relatively low value this is an area that has been in the national spotlight in recent years and there is a significant reputational risk to the council. We also intend to review the process for members to declare any interests that they may have.

Local Land Charges

- 3.10 Our proposed audit would look at the process for processing searches on a timely and accurate basis. We would also ensure that the register is maintained and that there are adequate processes for charging search fees.

Elections

- 3.11 Elections are a key part of the democratic process. We have previously looked at the financial administration of the election process but our audit for 2014/15 will focus on the operational risks associated with elections including looking the maintenance of the electoral register, and the storage, counting and administration processes for elections. We will also look at how postal votes are controlled.

Business continuity (IT and non IT)

- 3.12 This audit was scheduled for 2013/14 but was deferred until 2014/15 at managements request as the council's processes were being updated. Business continuity planning is an ongoing process of risk assessment and management. Its purpose is to ensure that the Council can continue

to operate and deliver services if risks materialise. These could arise from an external source, over which management have no control, or from events occurring within the organisation. Business continuity planning is not just concerned with disaster recovery; it addresses anything which could affect the continuity of service over the long term.

- 3.13 Our audit will also address the specific risk of loss of staff knowledge, as per the risk register.

4. Corporate common controls

- 4.1 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

- 4.2 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 council's external auditors Grant Thornton. 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.
- 4.3 We have gained a thorough understanding of these systems over recent years and have previously documented them. During 2014/15 we intend to concentrate predominantly on compliance testing the key controls, and aim to ensure that our testing includes transactions relating to all of the council's services.
- 4.4 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.
- 4.5 A separate schedule of proposed work relating to financial control systems is given at Appendix 1 below.

5. Follow up reviews

- 5.1 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 2014/15 follow-up reviews will be undertaken in relation to:

- Planning
- Public consultations; and
- Trade waste and bulky collections.

6. Other areas within the audit plan

- 6.1 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 council's external auditors;
 - 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

- 6.2 In addition to our audit work, the Internal 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.
- 6.3 A fraud risk assessment was carried out during 2013/14 to identify the areas of fraud risk throughout the council. 15 days have been allocated to our counter fraud work for the year and as the NFI exercise is run every 2 years we will use some of our counter fraud resource to review the key fraud risks arising from our fraud risk assessment. A contingency provision for investigations of 15 days will be made available during 2014/15 should the need arise.

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Appendix 1

Financial control systems

System	Planned audit days	Proposed scope of the review
Accounts Payable	9	A detailed review over the adequacy of the accounts payable procedures and the effectiveness of controls around the ordering and payment processes will be performed.
Accounts Receivable	9	A detailed review over the adequacy of the accounts receivable procedures and the effectiveness of controls around the invoicing and debt management processes will be performed.
Payroll	10	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.
General Ledger, Budget Setting and Monitoring	10	This review will assess the effectiveness of key controls surrounding the council's general ledger and budget setting and monitoring system.
Income Collection & Banking	10	The review will ensure that all money paid to the council is promptly and correctly accounted for. The areas subject to review will be discussed and agreed with management as part of the audit planning process.
Sub total	48	

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Financial control systems (continued)

System	Planned audit days	Proposed scope of the review
Council Tax	8	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	8	A review of procedures that relate to the control and administration of the housing and council tax benefits system at the Council.
National Non Domestic Rates (NNDR)	8	A review of procedures that relate to the control and administration of the National Non Domestic Rates (NNDR) system at the Council.
Treasury Management	8	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	10	The exact scope of this audit will be discussed and agreed with management once the 2013/14 audit has been finalised.
Financial systems contingency	5	A small provision has been made to respond to unforeseen issues should they arise.
Total	95	