

Subject:	Internal Audit annual plan 2016/17	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	15 March 2016
Report of:	Head of Internal Audit	Portfolio Holder:	Resources and Performance
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality 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 2016 to 31 March 2017.

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.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting sustainable investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **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 areas raised in this report involve risk considerations as set out below:
 The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed and the governance statement is made includes obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit.
 The audit plan is therefore focused on providing these assurances to the Chief Executive and Leader of the council who are jointly required to sign the annual governance statement.

5. BACKGROUND AND OPTIONS

5.1 Definition of internal auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation

accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

*The Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2013*

5.2 Relevant regulations

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

Regulation 5. (1)

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control ... and (b) prepare an annual governance statement."

Regulation 6. (1)

Accounts and Audit Regulations 2015

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Any financial implications are commented upon in the report.

MONITORING OFFICER

7.

7.1 Any legal implications are commented upon in the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 RBC Senior Management Team, relevant Heads of Service.

9. CONCLUSION

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

No background papers

Item D2

**Rossendale Borough Council
Internal Audit Service**

Internal Audit Plan 2016/17

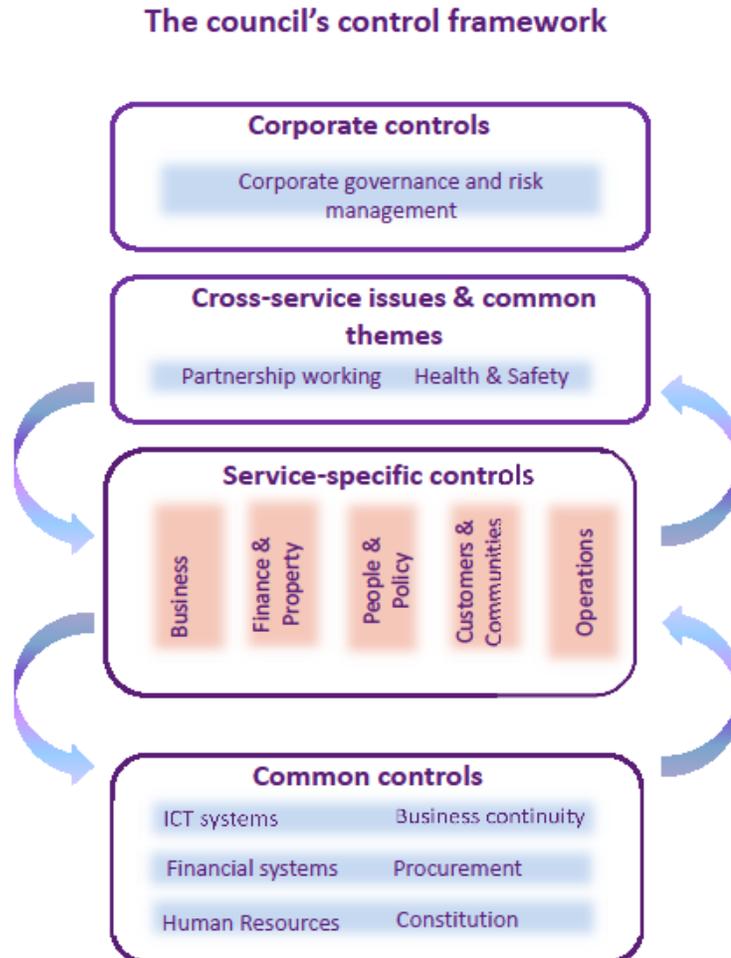


1. Executive summary

- 1.1 The Audit and Accounts Committee is invited to consider the internal audit plan for Rossendale Borough Council for 2016/17. 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 plan amounts to a total resource available to the council of 200 audit days which is a reduction from the 250 audit days in 2015/16.
- 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 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, illustrated below:



2. The planning process

- 2.1 The council continues to provide a wide range of services across the district. Senior managers will be aware both of the risks to achieving their service objectives and the risks inherent in their work, and each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level. The audit plan has been developed in conjunction with the Head of Finance and Property Services and the work set out below is intended to obtain the evidence required to provide assurance over the council's key financial systems and to draw an overall opinion for 2016/17.

3. Deployment of audit resources

- 3.1 This audit plan is stated in terms of estimated days input. The plan therefore represents only a best estimate of the audit resources and the ways in which they will be deployed.
- 3.2 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 We have set out overleaf the proposed audit coverage for 2016/17 in order to provide assurance over the most significant areas, and each of these potential areas is explained in more detail below.

CONTROLS ASSURANCE	Estimated audit days	
Corporate controls and cross-service issues		
Empty homes improvement strategy	30	30
Service-specific controls		
Town centre redevelopment	15	15
Corporate common controls		
Accounts payable	9	96
Accounts receivable	9	
Payroll	9	
General ledger, budget setting and monitoring	9	
Income collection and banking	8	
Council tax	8	
Housing benefits	8	
National non domestic rates (NNDR)	8	
Treasury management	8	
Housing management	10	
Rents and rent arrears	10	
Follow up of completed reviews	15	
Other		
Management of the Internal Audit Service	20	44
Counter fraud (including National Fraud Initiative)	10	
Contingency	14	
Total resource for the council	200	

Corporate controls and cross-service issues

- 3.6 The council's senior management team is taking action to address the issues arising from the Empty Homes Programme and is developing an improvement strategy to ensure that those issues are not repeated. The Internal Audit Service will test the implementation of this improvement strategy and seek to confirm that remedial action has successfully addressed the issues. We will discuss the scope of our work with the management team as the improvement strategy is implemented, but we

are likely to focus on decision-making, performance monitoring and corporate oversight.

Controls over service-specific risks

- 3.7 The town centre redevelopment was originally in the 2015/16 audit plan but due to slippage this has now been included for 2016/17.
- 3.8 The council has received £2 million of funding from the Heritage Lottery Fund for the re-development of the Bacup town centre. In addition the council is involved with the redevelopment project for Rawtenstall town centre working with partners such as Lancashire County Council. Our audit will focus on how the council provides strategic input to these projects and how the council monitors progress against time and budget for the elements it is responsible for.

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. 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 and, for the first time as a result of managing properties under the empty homes programme, housing management, rent and rent arrears.
- 4.3 We have gained a thorough understanding of the majority of these systems over recent years and have previously documented them which has allowed us to reduce the number of planned days in 2016/17 for a number of the systems. During 2016/17 we intend to concentrate predominantly on compliance testing the key controls, and to ensure that our testing includes transactions relating to all of the council's services. Whilst the focus of our work will be weighted towards a programme of controls testing, we will provide the resources to consider any new systems and system developments as they are brought into operation.
- 4.4 As a result of the empty homes scheme Rossendale BC now has a portfolio of properties it leases from homeowners and rents to tenants. This is a new work stream, with new systems, and we therefore propose to

carry out two new areas of work focusing on the housing management function including, leases, letting and property maintenance and on the rent charging, collection and any resultant debt/tenant management as a result of non-payment of rent.

- 4.5 A separate schedule of proposed work relating to financial control systems is given at Annex 1 below.

5. Follow-up reviews

- 5.1 Where not undertaken elsewhere within planned audit coverage, resources have been allocated to ensure that all our previous reviews are followed up and our opinions are re-assessed as the actions previously agreed with management are implemented.

6. Other areas within the audit plan

- 6.1 An allocation of 20 days (a reduction of 10 days from the 2015/16 allocation) has been set aside to cover other management and tasks in support of the internal audit service to the council:
- 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.
- 6.2 An allocation of 14 days contingency has been set aside to facilitate some flexibility in the use of our resources both within this plan, and against any emerging priorities, and we will amend the plan throughout the year as required.

Controls to manage the risk of fraud

- 6.3 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.
- 6.4 10 days (a reduction from the 15 days in 2015/16 allocation) have been allocated to our counter fraud work for the year. This time will be used to manage the NFI exercise and investigate the matches which cannot be investigated by the council.

Financial control systems

Annex 1

System	Planned audit days	Proposed scope of the review
Accounts payable	9	A detailed review of the adequacy of the accounts payable procedures and the effectiveness of controls around the ordering and payment processes.
Accounts receivable	9	A detailed review of the adequacy of the accounts receivable procedures and the effectiveness of controls around the invoicing and debt management processes.
Payroll	9	Consideration of 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	9	Assessment of the effectiveness of key controls surrounding the council's general ledger and budget setting and monitoring system.
Income collection and banking	8	A review to ensure that all money paid to the council is promptly and correctly accounted for. The areas subject to review will be agreed with management as part of the audit planning process.
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 council tax income.
Housing benefits	8	A review of procedures that relate to the control and administration of the housing and council tax benefits system.
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.
Treasury management	8	A review of the adequacy and effectiveness of controls in place to ensure investments and borrowing undertaken by the council is in accordance with legislation and best practice guidance.
Housing management	10	A review of procedures that relate to the control and administration of the lease, lettings

Rossendale Borough Council

Internal Audit Service

Internal audit plan for the year 1 April 2016 to 31 March 2017

System	Planned audit days	Proposed scope of the review
		and maintenance of properties.
Rents and rent arrears management	10	A review of procedures that relate to the control and administration of the setting of rents, rent charging, collection of rents and the management of rent arrears.
Total	96	