Rossendale Borough Council

Internal Audit Service

Internal Audit Plan 2012/13

Rossendale Borough Council

Internal Audit Service

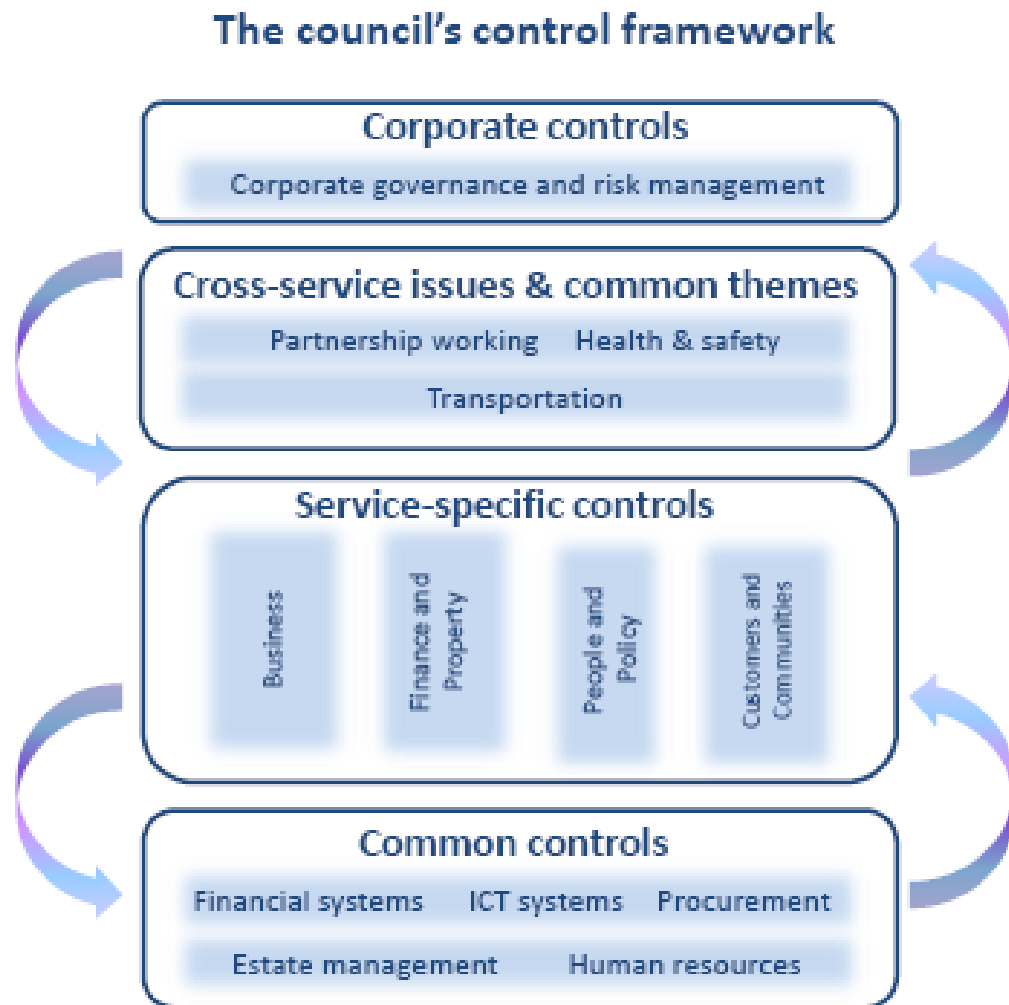Internal audit plan for the year 1 April 2012 to 31 March 2013

1. Executive summary

1.1 The council is invited to consider the annual internal audit plan for 2012/13. 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 a reduction of 13.5% from the previous year's plan (2011/12: 260 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 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:

The council's control framework

Corporate controls

Corporate governance and risk management

Cross-service issues & common themes

Partnership working   Health & safety

Transportation

Service-specific controls

Business   Finance and Property   People and Policy   Customers and Communities

Common controls

Financial systems   ICT systems   Procurement

Estate management   Human resources

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 Internal 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 2012/13. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment.

3. The council context

3.1 Local government continues to face unprecedented financial challenges and change. Despite making significant efficiency savings to date, the council has to identify further efficiencies or other measures to reduce its cost base by in excess of £1million by 2014/15, which is likely to have a fundamental impact on the council and this must be reflected in the work of the Internal Audit Service.

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 Internal 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, and these are specifically reflected in the proposed audit plan for 2012/13.

4.3   The Internal 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, 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 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.

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.

5.5 Following our discussions with the extended management team and subsequently with individual senior managers, we have set out below the proposed audit coverage for 2012/13 in order to provide assurance over the most significant risk areas identified by management:

CONTROLS ASSURANCE	Estimated audit days	
Corporate controls and cross-service issues		
Risk management	5	
Health and Safety	15	40
Governance – public consultations	20	
Service-specific controls		
ICT controls – Public Sector Network/ Government Connect	20	20
Corporate common controls		
Financial system controls	95	95
Management of the Audit Service	30	
Follow up of completed reviews	15	45
Total audit plan		
Counter fraud and contingency (including National Fraud Initiative)	25	25
Total resource for the council		**225**

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

6. Corporate controls and cross-service issues

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

Risk management

6.2 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.

6.3 We therefore intend to undertake an assessment of the risk management arrangements made in practice, and this will be achieved by a combination of examining a snapshot of senior management discussions and resulting actions, and a review of the risk register as a practical tool in effecting change.

Health and Safety

6.4 The provision of good health and safety practices and ensuring awareness across the organisation is a basic requirement of current health and safety legislation and covers all employees and other persons who may be affected by the council's undertakings. The financial and reputational implications of not doing so could be significant.

6.5 The council's joint working arrangements with Burnley Borough Council has led to significant performance improvements in this area since its inception in October 2007, with the introduction of health and safety audits in all service areas. There have also been a number of revised and new policies and procedures introduced.

6.6 We therefore propose to review the arrangements in place between the two councils in assessing whether all core service requirements and relevant legislation are being adhered to. In particular, we will examine the relevant policies and procedures to ensure compliance, including arrangements for the review, updating, and communication of requirements to staff, and the effectiveness of inspection programmes for undertaking risk assessments. In addition, we will examine the logging, reporting, and investigation processes relating to accidents and dangerous occurrences.

Governance – public consultations

6.7 The council will be embarking on a number of public consultations in the current year on issues which will have a direct impact on balancing its budgets over the medium term. Accordingly, we will review the robustness of these processes to stand up to any potential challenge and scrutiny, and as part of this will offer ongoing control advice and support.

7. Controls over service-specific risks

ICT controls – Public Sector Network/ Government Connect

7.1 Government Connect is a pan-government programme which provides a secure network between central government and every local authority in England and Wales. This also allows government agencies and departments to exchange and share protectively marked information with other relevant customers such as the Police, the NHS and local authorities.

7.2 The related code of connection (CoCo) must be adhered to by an organisation once it is connected, and is split into a number of sections such as physical security, firewalls, vulnerability scanning, etc. Underlying these sections are defined controls which provide the framework for compliance. The code of connection and its controls are consistent with well established standards for the management of information security and regarded by government as best commercial practice. The secure network and associated code of connection represent the minimum acceptable level of information security required of local authorities.

7.3 The conduct of an annual, independent review of the council's network security, including accredited penetration testing, is not only considered good practice but it is also a requirement of the code. Our review therefore intends to focus on the project management controls established to maintain compliance with the latest version of the code and the processes and procedures established to address any identified network vulnerabilities.

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 over recent years and have previously documented them. During 2012/13 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.

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 2012/13 follow-up reviews will be undertaken in relation to:

- Corporate governance;
- Partnerships;
- Information governance;
- Elections; and
- Contract management – Service Assurance Team.

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 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

10.2 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.

10.3 A provision for investigatory work and contingency of 25 days will be made available during 2012/13, and will also include coordinating the council's investigations of data identified by the 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 Internal 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, the Internal Audit Service 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	6	14
Senior Auditors	35	79
Audit team members	58	130
Total	100	225

Rossendale Borough Council

Internal Audit Service

Internal audit plan for the year 1 April 2012 to 31 March 2013

Financial control systems

System	Planned audit days	Proposed scope of the review
Accounts Payable	10	Following the detailed review over the adequacy of the accounts payable procedures and the effectiveness of controls around the ordering and payment processes in 2011/12, as part of the 2012/13 plan we propose to limit audit testing to the key controls and follow up the recommendations from the previous review.
Accounts Receivable	10	Following the detailed review over the adequacy of the accounts receivable procedures and the effectiveness of controls around the invoicing and debt management processes in 2011/12, as part of the 2012/13 audit plan we propose to limit audit testing to the key controls and follow up the recommendations from the previous review.
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 Monitoring	8	This review will assess the effectiveness of key controls surrounding the council's general ledger and budget monitoring system. We will also perform a follow-up review of previous audit recommendations in this area.
Income Collection & Banking	10	Our review of income collection and banking in 2011/12 involved an assessment of controls with respect to Rossendale markets. In 2012/13 we will select alternative service areas 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 areas subject to review will be discussed and agreed with management as part of the audit planning process.
Sub total	**48**	

Rossendale Borough Council

Internal Audit Service

Internal audit plan for the year 1 April 2012 to 31 March 2013

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. We will also follow up recommendations raised in our previous review of this area in 2011/12.
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 including a follow up of recommendations raised in our previous review of this area in 2011/12.
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 including a follow up of recommendations raised in our previous review of this area in 2011/12.
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	A review of the council's property asset management arrangements to provide assurance that the Council's property assets are accounted for and controlled adequately and effectively. This will include an assessment of the accuracy of property asset records, maintenance arrangements and commercial income and management of empty properties.
Financial systems contingency	5	A small provision has been made to respond to unforeseen issues should they arise.
Total	**95**	