AUDIT COMMITTEE

Venue: **Town Hall, Moorgate Street, Rotherham. S60 2TH**

Date: **Wednesday, 25 April 2012**

Time: **4.00 p.m.**

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.

2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.

3. Minutes of the previous meeting held on 14th March, 2012 (herewith) (Pages 1 - 3)

4. KPMG Interim External Audit Report (herewith) (Pages 4 - 26)

5. "Fighting Fraud Locally" Strategy (report herewith) (Pages 27 - 32)

6. Internal Audit Strategy and Audit Plan (report herewith) (Pages 33 - 57)

7. Audit Committee Annual Audit Report (report herewith) (Pages 58 - 73)

AUDIT COMMITTEE
14th March, 2012

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye, License and Sims.

Also in attendance were Mrs. A. Bingham (Chair of the Standards Committee), Steve Clark and Amy Warner (KPMG).

P42.   **MINUTES**

Resolved:- (1) That the minutes of the previous meeting held on 15th February, 2012 be agreed as a correct record.

(2) That it be noted that Councillor Gilding had not been provided with information on RBT as it was confidential.

P43.   **CLOSURE OF THE 2011/12 ACCOUNTS**

Consideration was given to a report introduced by Simon Tompkins, Finance Manager, which stated that the Council's annual Financial Statements were the primary means by which local authorities were accountable to local and national stakeholders. It was therefore important that the Council's accounts were prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

As highlighted in KPMG's 2011/12 external audit plan, the Council had a record of efficient and well-controlled closedown and accounts preparation.

The Resources Directorate was keen to maintain the high standard of financial reporting but there remained significant challenges to repeating this in 2011/12.

The report highlighted the main changes to accounting standards and disclosure requirements in 2011/12; their effect on the Council's accounting policies; and, the project management arrangements that would be employed to secure timely closure and produce 2011/12 Financial Statements that are fully compliant with the Accounting Code.

It also stated that the Audit Committee needed to formally approve the audited Financial Statements at its September meeting and asked Members whether they wished to receive the unaudited Financial Statements and Annual Governance Statement for information.

Risks and uncertainties were highlighted in the report.

Resolved:- (1) That the changes to the Council's accounting policies as a result of the changes to the accounting framework be noted.

(2) That the project management arrangements put in place to achieve timely closedown and to produce 2011/12 Financial Statements that were compliant with the Accounting Code be noted.

(3) That the Audit Committee formally approve the audited 2011/12 Financial Statements at its September meeting and that it receives for information the unaudited Financial Statements and Annual Governance Statement at its July meeting.

(4) That the accounts be subject to the normal scrutiny arrangements.

P44.   **EXTERNAL AUDIT PLAN 2011/12**

Consideration was given to a report introduced by Stuart Booth, Director of Financial Services, which stated that the Council's external auditor, KPMG LLP, had set out in its External Audit Plan for 2011/12 (Appendix 1) the proposed external audit work relating to council services and functions to be undertaken.

The KPMG External Audit Plan sets out the proposed audit work to be undertaken in relation to the 2011/12 financial year. The Plan has been drawn up using a risk-based approach to audit planning and reflects the work that would be required to enable KPMG to review and report on the Council's:

- **Financial Statements (including the Annual Governance Statement)**: providing an opinion on our 2011/12 Accounts; and

- **Use of Resources**: concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the Value for Money Conclusion).

Section 2 (Page 3 of KPMG's Plan) sets out the specific risks that KPMG will focus on during the audit which would contribute to formulation of their opinion on our Accounts and VFM Conclusion. The 4 areas to be reviewed were:

- The Council's ability to deliver its financial saving proposals and sustain its sound financial performance and position;

- How the Council has responded to the ongoing Accounting Code changes when preparing and reporting its Financial Statements;

- The operational and financial implications of bringing to an early completion the successful RBT strategic partnering agreement; and

- The future arrangements for Digital Region Limited.

Further details on these proposed review areas were set out in Section 4 (Pages 9-10 of KPMG's Plan) and Section 5 (Page 15) respectively.

Section 3 (Page 4 of KPMG's Plan) summarised the key stages and timetable for completing the work on the Council's financial statements (including Whole of Government Accounts) and concluded their reporting arrangements.

Section 5 (Pages 11-14 of KPMG's Plan) summarised their proposed approach to concluding whether the Council's arrangements for the use of its finite resources were securing VFM.

Section 6 (Pages 16-19 of KPMG's Plan) set out the key audit contacts for the local team, the audit deliverables and their timelines to be reported to Audit Committee and the proposed audit fee for the work set out in the Plan.

The Audit Plan and proposed fee was based on a number of assumptions set out on Page 19 of the Plan. Changes to the Plan and the fee may be necessary if new significant audit risks emerged.

Continuing to meet the audit plan expectations and attaining a very positive Annual Audit Report for 2011/12 was essential if the Council was to sustain its excellent reputation for good Financial Management, Governance and Reporting that KPMG had highlighted over previous years. This was particularly significant and important in the current difficult economic and financial conditions facing local councils.

Steve Clark and Amy Warner provided information on the areas covered.

Resolved:- That KPMG's External Audit Plan 2011/12, be noted and the proposed areas for audit identified.

P45.   **REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR TEN MONTHS ENDING 31ST JANUARY, 2012**

Consideration was give to a report introduced by Colin Earl, Director of Audit and Asset Management, which set out a summary of Internal Audit's work and performance for the ten months ending 31st January 2012. The service had achieved good performance in the period, exceeding most of its stretch targets.

The audit work completed to date had confirmed that the Council had a robust overall control environment.

Failure to deliver an effective internal audit function would weaken the Council's internal control arrangements and increase the risk of erroneous and / or irregular activities.

Resolved:- (1) That the good performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done in the period be noted.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	25th April 2012
3.	Title:	KPMG Interim External Audit Report
4.	Directorate:	Financial Services

5. Summary

This report refers to the outcomes from KPMG's 2011/12 interim external audit work. The scope of KPMG's work included:

- A review of the Council's general Control Environment, including its ICT systems;
- Testing certain key controls over the Council's key financial systems;
- An assessment of the Council's Internal Audit function;
- A review of the progress made in addressing changes in the 2011/12 Code of Practice for Local Authority Accounting;
- An assessment of the Council's financial resilience; and
- Identifying other audit issues to be considered during the audit.

The outcome of KPMG's interim audit report is a **very positive one.**

KPMG's overall assessment is that the Councils organisational controls are effective and that the Authority is always proactive in the management of any accounting or financial issues. It has good controls at an organisational level, across its IT control environment and key financial systems; and its Internal Audit function is compliant with the Code of Practice for internal audit in local government.

Only a small number of minor recommendations for improvement (to meet best practice standards) regarding improving ICT access and password security control have been made. Members should note that management have already flagged up these matters for review as part of the ongoing enhancement of the Council's financial systems.

6. Recommendation

Audit Committee is asked to note the findings and recommendations presented in KPMG's interim external audit report

7. Proposals and Details

Attached at **Appendix A** is KPMG's interim external audit report for the financial year 2011/12. Overall, the report is **very positive** and demonstrates the Council's continued commitment to ensuring that it has in place a strong and robust control environment for doing and managing its business in a proper and appropriate way that meets professional standards.

In addition, KPMG have also continued to review the Council's approach to **implementing changes to the Accounting Code for local authorities** and assessing how **financially resilient** the Council is to meet the financial challenges facing local government over the next few years. **Once again, a positive conclusion has been reached in both areas.**

KPMG will finalise their work on the Council's 2011/12 Accounts when they undertake the audit of the Council's 2011/12 Financial Statements. This work is expected to be concluded in September with an Unqualified Audit Opinion.

KPMG will continue to monitor the financial resilience of the Council in achieving its significant financial savings proposals in order to achieve its Medium Term Financial Strategy that supports the Council's Corporate Plan priorities.

The report identifies how each of the minor recommendations for improvement will be concluded over the next period.

The Audit Committee is asked to note the findings and recommendations presented in KPMG's interim external audit report.

8. Finance
There are no financial implications arising from this report.

9. Risks and Uncertainties
Failure to maintain robust control over the Council's Control Environment and its fundamental financial systems increases the risk of errors and potential loss and will adversely affect the Council's reputation.

10. Policy and Performance Agenda Implications
Maintenance of sound internal controls contributes to good governance.

11. Background Papers and Consultation

KPMG Interim External Audit Report – Appendix A

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cutting through complexity ™

Interim Audit Report
2011/12

Rotherham Metropolitan Borough Council

12 April 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Steve Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Rotherham Metropolitan Borough Council (the Authority) in relation to the 2011/12 financial statements; and

- our work to support our 2011/12 value for money (VFM) conclusion up to March 2012.

Financial statements

Our *External Audit Plan 2011/12*, presented to you in March 2012, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

During January to March 2012 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;

- testing of certain controls over the Authority's key financial systems with the help of internal audit;

- high level assessment of the internal audit function; and

- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2011/12* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and

- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.

- Section 3 sets out our key findings from our interim audit work in relation to the 2011/12 financial statements.

- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	The IT control environment is effective overall and there has been progress since our review of the IT control environment in previous years. However we have identified areas for improvement over the access controls supporting a number of the key financial systems.
Controls over key financial systems	Controls around key financial systems have again been assessed as good. Audit work is still required around grant expenditure, capital, benefit expenditure and payroll expenditure, but these are predominantly year end controls and as such will be tested during our year end visit.
Review of internal audit	We have reviewed internal audit's work, and found it consistent with the Code of Practice for Internal Audit in Local Government. We were able to rely on their work for the majority of our interim controls testing, and found their working papers to have further improved from the good standard in prior years.

Updates to Code of Practice and other accounting issues	There have been some updates to the Code of Practice for Local Authority Accounting for the 2011/12 year. These include :
	 • Adopting the requirements of FRS30, Heritage Assets;
	 • Amending the related party disclosures required and providing more guidance on the definition of a related party;
	 • Additional guidance on accounting for:
	   -- Pension strain;
	   -- Grants and contributions; and
	   -- the Carbon Reduction Commitment Scheme.
	
	 The Authority has been proactive in dealing with these issues and is making good progress in implementing any changes that are required.
	
	 There are also on-going discussions around the accounting treatment for transactions related to RBT and Digital Region Ltd. Again, the Authority has been proactive in identifying and addressing the accounting issues.

Financial resilience	The Authority is still facing cost pressures, however the revised forecast overspend for the year had reduced to £3.066m (1.4%) at the time of writing this report. The Authority has also approved its budget for 2012/13, which included the cost savings required as a result of the funding cuts announced in the comprehensive spending review. The Authority continues to monitor its financial position and look at ways to reduce the forecast overspend.
Other VFM risks	Our risk assessment identified value for money risks in relation to RBT and Digital Region Ltd. We will be undertaking work in relation to the arrangements to secure economy, efficiency and effectiveness in respect of these two issues prior to issuing our value for money conclusion.

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Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

In assessing the organisational control environment, we look at areas such as the Authority's response to political, economic and social factors, along with how they deal with any changes in accounting guidance. The Authority is always proactive in the management of any issues, and have good controls at an organisational level.

We therefore consider that your organisational controls are effective overall.

Aspect	Assessment
Organisational structure	❸
Integrity and ethical values	❸
Philosophy and operating style	❸
Participation of those charged with governance	❸
Human resource policies and practices	❸
Risk assessment process	❸
Information systems relevant to financial reporting	❸
Communication	❸
Monitoring	❸

Key: ❶ Significant gaps in the control environment.

❷ Deficiencies in respect of individual controls.

❸ Generally sound control environment.

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Your IT control environment is effective overall.

We noted a number of areas for further improvement.

• Process for removing leavers

• Improving password parameters

• Control over the use of user accounts assigned privileges

• Monitoring of the validity and appropriateness of access to users

Work completed

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Testing of these areas has been completed by our IT audit specialists, focussing on the IT controls supporting the key financial systems.

Key findings

We found your IT control environment is effective overall. We noted a number of areas for further improvement.

Leavers

■ We noted that on both Cedar Financials and ICON Cash Receipting a number of user accounts for leavers had not been removed, thus increasing the risk of unauthorised access to key financial systems.

Password parameters

■ We noted that the password minimum length and password history for Cedar Financials and ICON Cash Receipting and password history for PSe HR/Payroll were not set to best practice guidance.

Privileged User Accounts

■ We noted that a generic privileged user account was still active on ICON following the recent upgrade of this system.

■ We noted that privileged user accounts for Northgate Revenues & Benefits were set to have un-expiring passwords.

■ Although it is acknowledged that some shipped privileged user accounts are used for batch/system jobs and password expiry

settings would result in key jobs failing, users should not have access to such accounts for day to day activities. In addition, access to privileged responsibilities should be supported by accounts that have password expiry.

Monitoring

■ We noted that monitoring of user access to ICON, Northgate and PSe was limited in effectiveness, due to the lack of a clear strategy for monitoring, the reporting from the system for the purposes of subsequent monitoring or the lack of evidence of monitoring undertaken.

Recommendations are included in Appendix 1.

Aspect	Assessment
Access to systems and data	❷
System changes and maintenance	❸
Development of new systems and applications	❸
Computer operations, incl. processing and backup	❸

Key:　❶　Significant gaps in the control environment.

　　　❷　Deficiencies in respect of individual controls.

　　　❸　Generally sound control environment.

Controls over key financial systems

The controls over all of the key financial system are sound.

Work completed

We work with your internal auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over all of the they key financial system are sound.

Internal audit gave assurance for the following systems and included recommendations in their report as appropriate:

• Housing Rents Income

• Council Tax Income

• Business Rates Income

• Sundry Income

• Non-pay Expenditure

Where internal audit have already raised a recommendation relating to a particular system, we do not propose including the recommendation within our report.

KPMG had additionally tested the following areas:

• Cash

• Treasury Management

No control weaknesses were found.

We have not yet assessed the controls over grant income, benefit expenditure , capital expenditure and payroll expenditure. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

System	Assessment
Financial reporting	❸
Grant income	n/a
Housing rents income	❸
Council tax income	❸
Business rates income	❸
Sundry income	❸
Payroll Expenditure	n/a
Non-pay expenditure	❸
Benefits expenditure	n/a
Cash	❸
Treasury management	❸
Capital expenditure	n/a

Key:
- ❶ Significant gaps in the control environment.
- ❷ Deficiencies in respect of individual controls.
- ❸ Generally sound control environment.

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Internal audit complies with the *Code of Practice for Internal Audit in Local Government.*

Work completed

In order to maximise the efficiency of the audit function across the Authority, we work closely with Internal Audit to avoid duplication.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

We have reviewed Internal Audit's work and are satisfied that they are compliant with the *Code of Practice for Internal Audit in Local Government .*

This is based on our reported assessment of Internal Audit in 2009/10, our assessment of their files and our knowledge from continual liaison with key personnel, review of documents and attendance at Audit Committee.

Based on our assessment, internal audit complies with the Code.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Despite the changes of staff within the internal audit function, and the move to Riverside House, both of which could potentially have impacted on the quality of work produced we saw an improvement in the clarity of internal audit's working papers compared to previous years.

Aspect	Assessment
Scope of internal audit	❸
Independence	❸
Ethics for internal auditors	❸
Audit Committee	❸
Relationships with management, other auditors and other review bodies	❸
Staffing, training and development	❸
Audit strategy and planning	❸
Undertaking audit work	❸
Audit strategy and planning	❸
Due professional care	❸
Reporting	❸

Key: ❶ Non-compliance with the standard.

❷ Areas for improvement.

❸ Full compliance with the standard.

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Updates to Code of Practice and other accounting issues

There have been a number of updates to the Code of Practice for Local Authorities for the 2011 – 12 Year

Discussions are also taking place around the accounting treatment for RBT and Digital Region Ltd.

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Work completed

The Code of Practice for Local Authorities has been updated for the 2011/12 financial year. Key changes include:

• Adopting the requirements of FRS30, Heritage Assets;

• Amending the related party disclosures required and providing more guidance on the definition of a related party;

• Additional guidance on accounting for:

- - Pension strain;

- - Grants and contributions; and

- - the Carbon Reduction Commitment Scheme.

Discussions are also taking place around the treatment of RBT and Digital Region Ltd in the financial statements.

Key findings

As part of our regular communications with the Strategic Director of Resources, Director of Financial Services and Finance Manager, we have discussed the above updates to the Code, RBT and Digital Region Ltd. The Authority has been very proactive in identifying where additional work is required to comply with the Code of Practice updates and bringing to our attention any areas which require discussion.

With regards to RBT and Digital Region Ltd, there are still on-going discussions as to the exact impact on the financial statements. However, again the Authority has been proactive at bringing these issues to our attention and providing clear working papers detailing their proposed accounting treatment.

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our External *Audit Plan 2011/12*, presented to you in February, we identified the key areas affecting the Authority's 2011/12 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the Strategic Director of Resources, Director of Financial Services and Finance Manager as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.
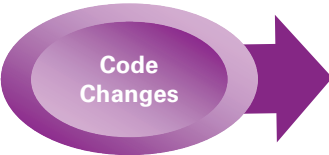
Key findings

RMBC have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
Savings Plans	As at November 2011, the Authority forecast an overspend on its Budget of £7.393m (3.4%). The main reasons for the projected overspend were the continued demand on services and cost pressures in looking after vulnerable children across the Borough; one off property costs relating to the continued rationalisation of the Council's asset portfolio to drive future efficiencies; and the extended timetable for realising the full forecast management and business support savings. The Authority currently estimates that another £20m in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Children and Young People's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.	The Authority is still facing cost pressures, however the revised forecast overspend for the year had reduced to £3.066m (1.4%) at the time of writing this report. Some of the initial costs have been mitigated through capitalisation of the Waste PFI, receiving additional NHS funding, and the proposed closure and use of some reserves. The Authority has also approved its budget for 2012/13, which included the required cost savings. The Authority continues to monitor its financial position and look at ways to reduce the forecast overspend. Prior to issuing our financial statements opinion, we will review the outturn for 2011/12 and review financial performance for 2012/13 against the budget.

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Key areas continued

Key audit risk	Issue	Progress
Code Changes	The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art. The 2011/12 Code also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 Code. The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.	There has been on-going discussions between the Authority and KPMG regarding the requirement in the 2011/12 Code in respect of heritage assets. The Authority has been able to justify its decision to not obtain valuations for the 2011/12 financial statements on the grounds the benefits of such an exercise are outweighed by the costs. The 2011/12 Code allows such a decision. We have also discussed the disclosure requirements for the 2011/12 financial statements. The Authority has also provided a plan for obtaining valuations for heritage assets for the 2012/13 financial statements that we are satisfied with. The Authority has considered other changes in the 2011/12 Code and we are pleased with the progress the Authority has made.

VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our *External Audit Plan 2011/12* describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and

- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

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Flow diagram: VFM audit risk assessment ↔ Financial statements and other audit work → Assessment of residual audit risk / Identification of specific VFM audit work (if any) → No further work required → Conclude on arrangements to secure VFM; Assessment of work by Audit Commission & other review agencies → Conclude on arrangements to secure VFM; Specific local risk based work → Conclude on arrangements to secure VFM → VFM conclusion

Specific VFM risks

We have identified a number of specific VFM risks.

We will carry out additional risk-based work in the two areas.
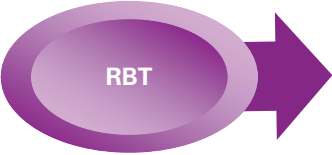
Work completed

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;

- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and

- concluded to what extent we need to carry out additional risk-based work.

Key findings

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2011/12*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
RBT	The Authority is seeking to end its partnership with BT and delivery of transactional services in RBT. There are significant initial costs and potential future savings and opportunities from such a change. Given the scale of costs and potential savings there is an impact on value for money.	The Authority undertook a value for money assessment in forming a decision to end its partnership with BT and delivering of transactional services in RBT. The Authority also identified a range of other considerations in forming its decision. We will now undertake a review of the value for money assessment that was undertaken including the considerations that took place. We will then be able to provide a view on the Authority's overall arrangements to secure economy, efficiency and effectiveness.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
Digital Region Ltd	The Authority's Joint Venture company, Digital Region Limited, has significant liabilities that the Authority (and other members of the joint venture arrangement) would need to fund if Digital Region Ltd ceased trading.	At the time of writing this report, the Authority was working with the other shareholders of Digital Region Ltd to form a decision on the future of the company. Our work will review the Authority's value for money arrangements in managing the potential issues concerning Digital Region Ltd.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ **Priority one**: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two**: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three**: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	❷	We noted a number of instances where the process for removing user accounts assigned to leavers was not effective and there are areas for improvement as follows: 1. Leavers on Cedar Financials – 8 user accounts assigned to leavers during the reporting period were still active at the time of our inspection. These accounts were subsequently removed as a result of our observation. Further inspection of these user accounts identified instances where 5 of the 8 accounts had been accessed after the user had left the Authority. We enquired of management and were informed that there are business reasons for accessing leaver accounts after their departure. 2. Leavers on ICON Cash Receipting – 5 user accounts assigned to the leavers during the reporting period were still active at the time of our inspection. These accounts were subsequently removed as a result of our observation. Further inspection of these user accounts identified instances where 2 of the 5 accounts had been accessed after the user had left the Authority. 3. Monitoring of ICON, PSe and Northgate users – We noted that no process is currently in place to review users of ICON for continued validity or appropriateness of access assigned. We also noted that the report used to monitor	Cedar - User accounts are subject to a quarterly security review. The 8 user accounts in question related to staff who left after the last review immediately prior to the period of audit had been completed. They would therefore have been picked up at the next review. Management consider quarterly review to be sufficient. Accounts such as the 5 user accounts referred to are sometimes enabled after the user has left the authority to allow failed processes to complete. The accounts are then re-disabled. In such circumstances, the system shows the 'last sign on date' as being the date the user account was re-disabled which may give the impression there has been a security risk. There is no risk from this process as all access rights are denied to prevent record creation or amendment. However, with immediate effect, a record will be kept of the reason for enabling a leaver's user account to provide an audit trail as recommended. ICON – The 5 user accounts referred to arose exceptionally because during the period that ICON was being upgraded between November 2011 and

Key issues and recommendations continued

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	②	Northgate users is not sufficient enough in detail to allow the reviewer to monitor the appropriateness of access assigned. In addition, we noted that no evidence is retained of the monitoring conducted over users of PSe. These observations present a risk to the overall system security, which could lead to inappropriate access to key financial systems. *Recommendation* We recommend that the Authority reviews its approach to monitoring of user access and prioritizes this for the timely removal of leavers to key financial systems. In addition, where there is a business justification to access leaver accounts on Cedar Financials, an audit trail of such access should be retained.	go live on 2 February 2012 they were created in the test system and then transferred to the live system and were not therefore picked up by the normal process of disabling users based on information on leavers reports. Similarly, of the 2 user accounts referred to as having been accessed after the user had left, one was a test user whose last log in date of the 24 November 2011 pre-dated the go live date and therefore posed no risk. There is no record that the second user referred to ever having logged in to the system. Hence, in summary, management consider the current process of disabling users to be effective. PSe - The review process for PSe users is an automated job that immediately disables any accounts where an employee leaves or transfers organisational area. Our view is that the current process is sound on the reasonable premise that if an employee has not changed job (ie moved within an organisational area) then their access requirements will not have altered We do not believe that emailing Users/Managers every 6 months to confirm access requirements as has been suggested would enhance the process. Northgate - The Job Role associated with each user will be included in the next user review, scheduled for June 2012, to provide further detail as recommended.

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Key issues and recommendations continued

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	❷	We noted from inspection of the password parameters across key financial systems that a number were not in line with good practice standards as follows: 1. ICON and Cedar password minimum length was set to 7 and 6 characters respectively 2. The password history for PSe, Cedar and ICON was set to 3, 3 and 4 passwords respectively. These observations increase the risk to the overall system security. *Recommendation* We recommend that the password parameters for the ICON, Cedar and PSe systems are standardised where possible and in line with the Authority 's policies.	Agreed. Minimum password lengths and password history will be amended to bring them into line with ICT policy which requires a minimum password length of 8 characters and passwords to only be re-used after 20 changes. These changes will be implemented as follows: - Cedar - as part of the upgrade to 5.3 in May 2012. - ICON - already implemented. - PSe - password re-use in the process of being changed to 20.

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No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	❷	We noted from inspection of user accounts assigned privileges that a number were generic and in some cases not set to have expiring passwords as follows: 1. A number of generic users on the Northgate system were noted. One such account is used for batch jobs but there are users with access to this account. In addition, there is a generic account used by the 3rd party supplier of the system for remote access for maintenance purposes. 2. Users with access to the NO_UPDATE_PASSWORD profile are not required to change their passwords in line with password policies. 3. An ADMIN user account was identified on the ICON system, which was used during the upgrade from Radius. We acknowledge that this account was removed at the time of our observation. The observations increase the risk of un-attributable user activity on key financial systems and where user accounts do not require password expiry, un-authorised and un-attributable user activity could be available for long periods. *Recommendation* We recommend that all user accounts, where possible, are attributable to users and those used for batch jobs are not accessible for day to day tasks by users. In addition, we recommend that all accounts where possible (i.e. acknowledging that some would result in jobs failing if password expiry is set) should have expiring passwords.	Northgate -There are only two generic users on the Northgate system. One is a Super User that is also needed for Unix access by the Unix Team for release upgrades. This is used for a very limited number of batch scheduler jobs due to the way that Northgate have set up permissions to a small number of batch scheduler modules. The 3rd party supplier generic user that is used for remote access system support is on a profile where a regular password is forced. Northgate - The number of users with the NO_PASSWORD_UPDATE profile has been reduced to 4. This privilege is needed to ensure that future batch scheduler jobs run successfully, as batch schedule jobs will only run if the password for the user is the same when the job is run that it was when the job was created. Batch scheduler jobs are created up to 6 months in advance. ICON – Overall security has been enhanced following the system upgrade by: - Changing the User Id Code from a 3 digit number to a person's name. - Introduction of a 90 day Password Expiry. - Adoption of a minimum password length of 8 characters and 20 password changes before a password can be re-used in accordance with ICT policy. - Passwords consisting of Alpha & Numerical Characters. - A 180 minute Account Lockout Period & a 90 day Inactivity Period.

Follow-up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2010/11 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2 partial
Remain outstanding (re-iterated below)	2 partial

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 31st March 2012
1	②	**IT Access Controls** We identified a number of instances where user access controls were not operating effectively and / or there are performance improvement points that the Authority should consider. PSe Starters – some user request forms were not available to support new starters access to the system. Cedar Leavers – there were user accounts assigned to leavers that remained active. Radius Leavers – there were user accounts assigned to leavers that remained active. Cedar/PSe/Northgate Monitoring of users – evidence of review for these systems was not available.	The management for each service will review the ongoing effectiveness of the IT access controls and where appropriate consider the actions that need to be taken. September 2011	From inspection of controls during the 2011-12 reporting period, we noted the following: - the observation in relation to PSe Starters is now implemented - Cedar monitoring is now implemented However, the observations in relation to Cedar Leavers, Radius Leavers and PSe and Northgate monitoring remain outstanding and have been included in Appendix A. Although Cedar monitoring is now in place, we identified a number of leaver accounts that were removed following our observation during the 2011-12 reporting period.

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Follow-up of prior year recommendations continued

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 31st March 2012
2	②	**IT General Controls – Password Security** The password parameters for key IT systems were inspected and it was found that the password parameters for both Radius and Northgate were not as strong as they could be.	The management for each service will review the ongoing effectiveness of the IT access controls and where appropriate consider the actions that need to be taken. September 2011	This action has been implemented for Northgate but not for the upgrade of Radius to ICON and therefore has been included in Appendix A.

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KPMG

cutting through complexity ™

	ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE	

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**25th April 2012**
3.	**Title:**	**''Fighting Fraud Locally'' Strategy**
4.	**Directorate:**	**Resources**

5. Summary

The Government has indicated a step change in how seriously it considers the issue of fraud in the public sector through a Cabinet Office Counter Fraud Task Force and a strategy (entitled 'Fighting Fraud Together'), designed to reduce fraud affecting the country and its economy,.

In response, the National Fraud Authority (NFA) has developed a strategy for tackling fraud in local government - 'Fighting Fraud Locally' – which calls upon Local Government to review its anti-fraud arrangements and makes several recommendations for the improvement of these now and into the future.

The Audit Committee considered revisions to the Council's anti-fraud arrangements at its meeting in January 2012, taking into account the Audit Commission's 'Protecting the Public Purse' and the Bribery Act. The Council's arrangements are consistent with the Fighting Fraud Locally strategy.

The 'Fighting Fraud Locally' strategy also recognises that local authorities are currently constrained in their response to fraud and urges the Government to resolve key issues that contribute to this.

6. Recommendations

The Audit Committee is asked to note the publication of the ''Fighting Fraud Locally'' strategy and the consistency of the Council's arrangements with it.

7. Proposals and Details.

7.1 The NFA estimates that in the UK, fraud costs public services an estimated £21 billion and, within this figure, fraud costs local government in the region of £2.1billion per annum and is increasing significantly.

The Government has indicated a step change in how seriously it considers the issue of fraud in the public sector through a Cabinet Office Counter Fraud Task Force and a strategy (entitled 'Fighting Fraud Together'), designed to reduce fraud affecting the country and its economy,.

Fighting Fraud Together [FFT] was published on 12 October 2011. 37 organisations initially signed up to the strategy, covering all sectors:

- Public
- Private
- Voluntary
- Regulators
- Law enforcement

7.2 Fighting Fraud Together is a partnership approach to detecting, preventing and tackling fraud. Fighting Fraud Locally [FFL] is the Local Government element of FFT.

The strategy includes recommendations for both Central and Local Government to create an environment where fraud can be and is tackled effectively.

Fighting Fraud Locally is the first sector-led strategy developed under Fighting Fraud Together. The content arises from practitioners and 'experts' in the sector. The role of the National Fraud Authority has been to coordinate and catalyse action and bring partners together.

The FFL strategy has had widespread engagement:
- Over 400 LA stakeholders
- 11 workshops
- Working-level advisory board

The FFL 'Vision' is:

''By 2015 local government will be more resilient to the fraud threat, for example:

- *Local authorities will have a greater understanding of their fraud threat*
- *There will have been a radical realignment of the counter fraud response*
- *New collaborative arrangements will be in place to combat cross boundary fraud.''*

The NFA / Government state that FFL needs to be 'owned' and implemented by local government but supported by central government and with collaboration from the private sector. The NFA will provide tools to help local authorities address fraud risks

7.3   Why Fighting Fraud Locally and Why Now?

The strategy suggests the following reasons as the drivers for the focus on fraud now:

- The Changing Context
    - To the way services are delivered
    - Regulatory landscape
    - Increased fraud risk

- A New Partnership
    - Between local authorities
    - Between local and central government
    - Between local authorities and enforcement agencies

- A New Approach
    - Acknowledge
    - Prevent
    - Enforce

- Collaborating and sharing
    - Good practice
    - Data and information
    - Services

7.4   Implications for Local Government

The NFA calls upon Local Government to review its anti-fraud arrangements and makes several recommendations for improvement of these now and into the future. Anti-fraud arrangements should be based on the following.

- Acknowledge: Local government must acknowledge and understand its fraud risks

- Prevent: Preventing fraud is the most efficient way to reduce fraud loss

- Enforce: A strengthened response to punish fraudsters and recover losses.

An extract from the strategy, summarising the approach, is attached at Appendix A

The Audit Committee considered revisions to the Council's anti-fraud arrangements at its meeting in January 2012, taking into account the Audit Commission's 'Protecting the Public Purse' and the Bribery Act. The Council's arrangements are consistent with the Fighting Fraud Locally strategy.

7.5   Implications for Central Government

The strategy recognises that local authorities are currently constrained in their response to fraud and urges the Government to resolve key issues that contribute to this:

(1) Information sharing barriers
- Barriers to efficient and effective information sharing
- Government to explore the need for a new power to share information to counter fraud

(2) Incentives
- Perverse incentives mean some frauds are not worth investigating
- Government to examine how to incentivise local authority counter fraud work

(3) Powers
- There is a lack of powers to investigate non-benefit fraud
- Working group to be set up to look at what powers are needed for accredited local authority staff to investigate non-benefit fraud

(4) National Fraud Initiative (NFI)
- The NFI to continue as a key part of the local government counter fraud infrastructure
- To ensure that new governance of the NFI includes Local Authorities

8.   Finance.

There are no direct financial implications arising from this report.

9.   Risks and Uncertainties.

Failure to ensure RMBC's anti-fraud arrangements are in line with the FFL Strategy could expose the Council to increased risks of fraud & corruption and damage to reputation.

10.   Policy and Performance Agenda Implications.

The existence of anti-fraud arrangements, in line with the FFL Strategy, will contribute towards good governance.

11.   Background Papers and Consultation.

A copy of the fighting fraud locally document has been sent electronically to Members of the Audit Committee.

Contact Names:

Colin Earl, Director of Internal Audit and Asset Management, ext 22033

Steve Pearson, Audit Manager, ext 23293

Appendices:

Appendix A   A Strategy to Tackle Fraud Locally

Appendix A   A Strategy to Tackle Fraud Locally

Local government will be better able to protect itself from fraud and will provide a more effective fraud response.

Acknowledgement	Prevent	Enforce
Acknowledging and understanding fraud risks	Preventing and detecting more fraud	Being stronger in punishing fraud and recovering losses
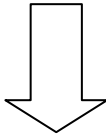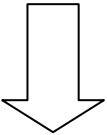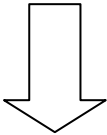
• Assessing and understanding fraud risks • Committing support and resource to tackling fraud • Maintaining a robust anti-fraud response	• Making better use of information and technology • Enhancing fraud controls and processes • Developing a more effective anti-fraud culture	• Prioritising fraud recovery and the use of civil sanctions • Developing capability and capacity to punish fraudsters • Collaborating with law enforcement

Agenda Item 6

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	Audit Committee
2.	**Date:**	25th April 2012
3.	**Title:**	Internal Audit Strategy and Audit Plan
4.	**Directorate:**	Resources

5. Summary

This report refers to the Internal Audit Strategy and the draft Internal Audit Plan for 2012/13.

The report explains our approach to the development of the Plan in line with professional practice, as well as detailing specific areas of activity we intend to cover.

6. Recommendations

The Audit Committee is asked:

- **To agree the Internal Audit Strategy**

- **To support the Internal Audit Plan for 2012/13.**

7. Proposals and Details

Internal Audit Strategy

The CIPFA Code of Practice for Internal Audit in Local Government (Internal Audit's professional standards) requires Internal Audit to produce an Internal Audit Strategy.

The Strategy is intended to draw together details of how Internal Audit operates and delivers its terms of reference. The Audit Committee previously approved the Internal Audit Strategy in June 2011. No changes have been made since then to the Strategy, which is attached at **Appendix A.**

The Audit Committee is asked to agree the Internal Audit Strategy for this year.

Internal Audit Plan

Attached at **Appendix B** is the 2012/13 Internal Audit Plan. There are details included in the Plan about how it is produced, the work proposed and audit resources.

In line with the CIPFA Code of Practice, the Plan has been drafted following a risk based approach and is derived from a range of sources, including:

- Review of the Council's risk registers

- Review of revenue and capital budgets

- Cumulative audit knowledge and experience

- Review of key plans, reports and press coverage

- Awareness of priorities identified by the Council's Strategic Directors and Service Directors

- Knowledge of existing management and control environments, including information relating to any system changes

- Professional judgement on the risk of fraud or error.

There are five types of work included in the plan:

- Mandatory work – work required to enable the Section 151 Officer (at Rotherham this is the Strategic Director of Resources) to fulfil his statutory responsibility to ensure the proper administration of the Council's financial affairs

- Must-do work – including the Audit Commission's National Fraud Initiative and the Certification of Grant Claims

- An allowance for follow-up work in areas where significant weaknesses were identified during the last audit

- An allocation for emerging risks / responsive work. This is work in response to requests from managers for advice and investigation work

- Risk related work.

The first four of these categories of work are prescribed either because of statutory requirements or other imperatives, outlined above. Limited scope is available to 'flex' the

plan in these areas. The fifth type of work (risk related) is shaped to reflect Members' and Senior Managers' views of the areas in which Internal Audit is likely to be able to best add value, either by objectively reviewing arrangements in place or by helping to shape new arrangements or systems by offering advice on controls or procedures. The Audit Committee is asked to note in particular the areas proposed for coverage under this 'Risk Related Work' heading in the Audit Plan (see 3.5 in the attached plan).

A summary of the areas to be covered in 2012/13 compared with 2011/12 is provided in the table below:

Activity	Planned Days 2011/12	Planned Days 2012/13
Mandatory Work:		
Corporate Systems	315	295
Directorate Systems	371	446
ICT Audit	205	135
Anti Fraud & Corruption Work	130	150
Schools	250	195
sub-total	**1271**	**1221**
Other 'Must do' work:		
National Fraud Initiative	45	40
2010 Rotherham Ltd.	15	0
Digital Region Limited	35	0
ICT Audit – Barnsley MBC	5	5
Grant Certification	40	25
sub-total	**140**	**70**
Follow up work	**45**	**45**
Emerging Risks / Responsive work	**410**	**397**
Risk Related Work	**290**	**298**
TOTAL	**2156**	**2031**

Main points / changes to note include:

- There is an overall planned reduction in Internal Audit activity. This has been necessary in order to achieve savings in line with Council-wide budget reductions. However, through a careful approach to risk based planning and robust performance management of our resources, this can be achieved without compromising our capacity to provide an adequate level of assurance to the Audit Committee and Strategic Director of Resources.

- We have refined our approach to Corporate Systems audits resulting in a small efficiency saving of 20 days, whilst still enabling us to meet the requirements of the Council's External Auditor.

- During the previous financial year, responsibility for housing landlord services transferred from 2010 Rotherham Limited (2010R) back to the Neighbourhoods and Adult Services Directorate of RMBC. Audit work on Housing Services is now captured within the Directorate Systems part of the Plan, where audit days have needed to increase as a result.

- Our Plan shows an increase in resources allocated to Anti Fraud and Corruption activity. This is in line with national guidance and reflects our professional judgement that the Council faces, along with many other organisations, an increased risk of exposure to fraud due to the prevailing economic conditions.

- Following a comprehensive review of our approach to the audit of schools, we have further refined our approach in recent months to improve our efficiency. This has resulted in a further reduction in the number of days required for school audit activity.

- Our Plan includes 5 and 30 days respectively relating to the provision of specialist ICT audit advice and support to Barnsley and Doncaster Councils. Our agreement with Barnsley was secured following a competitive procurement process.

- The plan includes an allocation of 45 days for follow up work. Targeted follow up is designed to maximise the benefit of the original audit work by ensuring actions have been implemented and appropriate outcomes achieved.

- A proportion of the plan is directly linked to corporate and service risks and, in particular, how these risks are being managed.

- A contingency has been made to provide for emerging risks / requests for advice / assistance that arise throughout the year. Client feedback tells us that our ability to respond promptly to unforeseen issues of this nature is highly valued.

The Audit Committee is asked to support the Internal Audit Plan for 2012/13.

8. Finance
There are no direct financial implications. The Audit Plan can be delivered within existing resources.

9. Risks and Uncertainties
The Strategic Director of Resources is required to maker proper arrangements for financial administration. As part of these arrangements, Internal Audit is required to review all major financial systems and arrangements. Failure to do so will prevent the Strategic Director of Resources from meeting his and the Council's statutory responsibilities.

Failure to deliver a plan which complies with the CIPFA Code of Practice and meets the expectations of External Audit could lead to criticism from KPMG. It could also lead to additional costs where External Audit cannot rely on Internal Audit's work and needs to carry out further work itself to gain assurance about the Council's financial arrangements and control environment.

10. Policy and Performance Agenda Implications
Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation
CIPFA Code of Practice for Internal Audit
Strategic Leadership Team

Contact Names:
Colin Earl, Director of Audit and Asset Management, x22033
Marc Bicknell, Chief Auditor, x23297

Appendices:
Appendix A   Internal Audit Strategy
Appendix B   Audit Plan 2012/13

APPENDIX   A

**INTERNAL AUDIT STRATEGY
(ATTACHED)**

AUDIT STRATEGY

Colin Earl MBA (Dist), CPFA
Director of Audit & Asset Management

Marc Bicknell BA (Hons) ACA
Chief Auditor

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Resources Directorate   **Internal Audit Strategy**
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THE INTERNAL AUDIT STRATEGY

Introduction
This document sets out the Council's Internal Audit Strategy.

CIPFA Code of Practice requirements
The CIPFA Code of Practice for Internal Audit (Internal Audit's professional standards) states that:

> *"7.1.1 The Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities. The strategy can be presented as a document in its own right or integrated into an existing document, such as the business or service plan. It sets the context within which more detailed plans can be developed. The strategy should be kept up to date with the organisation and its changing priorities.*
>
> *7.1.2 The strategy will communicate the contribution that Internal Audit makes to the organisation and should include:*
>
> *(a) Internal Audit objectives and outcomes*
> *(b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment to support the annual Statement on Internal Control*
> *(c) how Internal Audit's work will identify and address significant local and national issues and risks*
> *(d) how the service will be provided, ie internally, externally, or a mix of the two*
> *(e) the resources and skills required to deliver the strategy.*
>
> *7.1.3 The strategy should be approved, but not directed, by the audit committee."*

The ways in which Internal Audit complies with these requirements are explained below.

Delivery and development of Internal Audit in accordance with its Terms of Reference

Internal Audit's terms of reference are included at **Appendix 1** to this strategy.

Internal Audit meets these terms of reference annually by producing and delivering an audit plan which helps the Strategic Director of Resources to fulfil his statutory and other responsibilities, and addresses the Council's key risks.

An assessment of the internal audit resources (quantity) required to deliver the audit plan is undertaken annually and on an ongoing basis thereafter, to ensure all demands can be met. An assessment of training and development needs is also completed annually, and a training plan to meet priority needs is established to ensure Internal Audit develops and adapts to changing requirements and expectations. Processes are reviewed and updated regularly to ensure they are efficient and effective in meeting audit needs.

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Resources Directorate   **Internal Audit Strategy**
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The **Internal Audit Service Plan** includes more details of Internal Audit's objectives and its approach to monitoring performance and achieving its objectives.

Links to organisational objectives and priorities

Internal Audit itself is an integral part of the Council's Governance Framework, which is wholly related to the Council's corporate priorities. Internal Audit assists the Council's achievement of its objectives and priorities by adopting a risk based approach to determining its work programme, as identified in its annual plans. By focusing on key corporate risks Internal Audit provides assurance to management that the risks of failing to deliver key objectives and priorities are being managed effectively. Internal Audit makes recommendations for improvement where necessary.

Further details of Internal Audit's approach are contained in its annual plans.

Local and National Risks

Internal Audit's approach to planning, outlined above and described in full in its audit plan, takes into account all local and national risks included in the Council's risks registers.

Providing an opinion on the Council's control environment

Internal Audit's core work, described in its audit plan, is directed towards giving an opinion on the Council's control environment at the end of each financial year. A summary of the opinion and matters arising from the work completed are contained in the **Annual Audit Report.**

Internal Audit service provision

Internal Audit is delivered primarily by Council employed staff. However, where temporary shortfalls in resources are identified, short-term support staff are engaged to ensure the Internal Audit plan is delivered.

For any specialist areas, Internal Audit can procure, if necessary, the relevant expertise from within and outside of the Authority to ensure it can fulfil its objectives.

Details of the balance of demand and resources are contained in the Internal Audit plan.

Audit Committee approval

The Audit Committee agrees the strategy and any revisions to it.

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APPENDIX 1
INTERNAL AUDIT TERMS OF REFERENCE

Introduction

Internal Audit is a statutory function in accordance with the provisions of the Local Government Act 1972. The Accounts and Audit Regulations 2011 requires the Council to 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 standard for internal audit practice is contained within the Code of Practice for Internal Audit in Local Government 2006 issued by the CIPFA (Chartered Institute of Public Finance and Accountancy).

The main criterion of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows: -

- unrestricted access to senior management

- unrestricted access to the Chair of Audit Committee

- reporting in its own name

- segregation from line operations.

Internal Audit should be sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows it to make impartial and effective professional judgements and recommendations. As such Internal Auditors will not have any operational responsibilities.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Objectives of Internal Audit

As an independent appraisal function within the Authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to: -

- Contribute to the overall control environment of the Authority including all its operations, resources, services, and responsibilities in relation to other bodies.

- Support the Strategic Director of Resources to discharge his duties as Section 151 Officer of the Council.

- Contribute to, and support, the Strategic Director of Resources' objective of ensuring the provision of, and promoting the need for, sound financial systems.

- Comply with the 2006 edition of the CIPFA Code of Practice for Internal Audit in Local Government and any subsequent revisions.

- Contribute to the overall system of Corporate Governance within the Council.

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Resources Directorate   **Internal Audit Strategy**
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Scope of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of the Authority's activities and unrestricted access to all records and assets deemed necessary in the course of its assurance and consultancy work, including unrestricted access to: -

- the Chief Executive

- Members

- Strategic Directors and Service Directors

- all Authority employees.

Additionally Internal Audit will provide consultancy services to management, dependent on skills and resources available, in relation to advice on specific issues e.g. the provision of relevant access rights in the drafting of contracts, service agreements etc, process design & changes, fraud and irregularity, employee disciplinary issues.

Location of Internal Audit

Internal Audit, as recommended by CIPFA, is located within the Resources Directorate and in accordance with the Financial Regulations, under the direction of the Strategic Director of Resources in his capacity as Section 151 Officer of the Council.

Internal Audit Responsibility

The Director of Audit and Asset Management is required to deliver an audit opinion on the control environment of the Authority. To achieve this aim it will be necessary for Internal Audit to:

1. Review, appraise and report on the policies, procedures and operations in place in the Authority relating to the: -

    - establishment, monitoring and achievement of, the Authority's objectives.

    - identification, assessment and management of the risks to achieving those objectives.

    - facilitation of decision making.

    - extent to which the assets of the Authority are properly accounted for and safeguarded from loss, including that arising from frauds, irregularity or corruption.

    - achievement of the economical, effective and efficient use of resources.

    - soundness, adequacy and application of internal controls.

    - suitability and reliability of financial and other management data, including aspects of performance measurement.

    - compliance with laws and regulations.

2. Ensure that all key financial systems are monitored and reviewed on an annual basis including verification of the integrity and reliability of accounts and data within those systems.

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Resources Directorate   **Internal Audit Strategy**
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3. Contribute to the overall system of Corporate Governance Statement within the Council.

4. Liaise with the external auditor in the planning of work and exchange of information to ensure that the combined audit resources are used effectively.

5. Respond to requests for assistance from management in relation to situations and issues where it is felt the specialist skills of Internal Audit are needed.

Audit Approach

The Director of Audit and Asset Management will be required to manage the provision of a complete audit service to the Authority which will include:

- Fundamental Systems and Governance Arrangements
- Core Financial Administration
- ICT Audit
- Anti Fraud and Corruption Work

In discharge of this duty the Director of Audit and Asset Management will: -

- Prepare a rolling three-year strategic risk-based audit plan in consultation with departmental senior management, for formal approval by the Strategic Director of Resources and the Audit Committee. This strategic plan will be regarded as a flexible expression of audit policy that may alter, dependent on influencing factors.

- Agree the strategic plan into annual plans for formal agreement with the Strategic Director of Resources and the Audit Committee.

- Ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure.

- Prepare, for agreement with the Chief Executive and the Strategic Director of Resources, an annual report to be presented to the Audit Committee.

Audit Protocols

Audit work necessitates contact with auditors from other agencies where the Council may have either entered into a joint working partnership e.g. NHS Rotherham. In all these instances Internal Audit will have a formal written protocol outlining the respective responsibilities and contact points for each agency.

Additionally a further protocol should exist between Internal Audit and the Housing Benefit Fraud Investigation Team of the Council defining liaison between the sections including a requirement for the Fraud Team to inform Internal Audit of any identified weaknesses in the Housing Benefit control environment that has, or may result, in fraud.

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Ethics of Internal Auditors

Internal Auditors should demonstrate the following principles in relation to their standards of performance and conduct:-

- Integrity – The relationship with colleagues and external contacts should be one of fairness and honesty to establish an environment of trust.

- Objectivity – Internal auditors should act objectively without being unduly influenced by personal interest or the views of others and also should be perceived by others as acting objectively. This objectivity should be reflected when providing professional opinions, reviews and recommendations.

- Competence – The knowledge, skills and experience of an auditor should be applied in the performance of their duties. Work should not be accepted where the auditor is not competent unless under the guidance and support of a colleague with appropriate skills.

- Confidentiality – Information derived from audit work should be safeguarded and not disclosed to others unless under a legal or professional requirement to do so. Confidential information arising from audit work must not be used to affect personal gain.

Audit Resources

The staffing structure of the Internal Audit section will comprise a mix of qualified, technician and trainee posts from a financial background with a mix of experience to reflect the varied functions of the section. Additional professional specialisms are available to the audit section for advice purposes from within other areas of the Council if needed.

Resource requirements of Internal Audit should ideally reflect the levels of work required as identified by the Director of Audit and Asset Management based on a recognised risk assessment basis. It will be the responsibility of the Director of Audit and Asset Management to report to the Section 151 Officer any significant variations between resources and identified workloads. When funding for staffing resources is determined by the Council for the year ahead, the audit plan will be adjusted, on risk based priority, to match resources available.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-term basis only.

Auditor Qualifications & Training

The post of Director of Audit and Asset Management will be appointed in accordance with the job description, qualifications and person specification as determined by the Strategic Director of Resources.

The Director of Audit and Asset Management will ensure that a continuous review of the development and training needs of all audit staff is undertaken in accordance with the Council's Performance & Development Review procedure and will arrange in-service training covering both internal and external courses.

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It will be expected that all audit staff complete at least one form of examinations relevant to audit work e.g. Association of Accounting Technicians, Institute of Internal Auditors, Chartered Institute of Public Finance & Accountancy (or equivalent).

The experience of staff will be kept under review and any opportunities to increase the existing knowledge of individuals will be considered including the use of job rotation or secondments as appropriate.

Audit Reporting

All audits will be the subject of formal reports. Draft reports will be sent to the managers responsible for the area under review for agreement to the factual accuracy of findings. After agreement, the reports will be issued to the operational manager of the service reviewed and the relevant Service Director and Strategic Director. In the case of schools the audit report will be sent to the head teacher and the chair of governors. Reports will be made available to the authority's external auditors on request.

Reports containing significant weaknesses or sensitive issues are copied to the Chief Executive and Strategic Director of Resources.

The Director of Audit and Asset Management will provide quarterly reports to the Audit Committee including details of:-

- actual work carried out compared to planned work.

- necessary amendments/revisions to the annual audit plan for approval.

- Audit performance in relation to agreed benchmarking.

APPENDIX   B

**INTERNAL AUDIT PLAN
(ATTACHED)**

INTERNAL AUDIT

AUDIT PLAN 2012/13

Colin Earl MBA(Dist) CPFA
Director of Audit and Asset Management

Marc Bicknell BA(Hons) ACA
 Chief Auditor

1.   Purpose.

1.1   This document provides details of the Internal Audit annual plan for 2012/13. The function of Internal Audit is set out in the CIPFA Code of Practice for Internal Audit in Local Government:

"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

1.2   The overall opinion issued each year by Internal Audit on the adequacy and effectiveness of the control environment is used as a key source of assurance to support the Annual Governance Statement.

1.3   Internal Audit also has an important role to support the Strategic Director of Finance in discharging his statutory responsibilities, which include:

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.

- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.

- Accounts and Audit Regulations 2011 – to ensure that an adequate and effective internal audit of the Council's accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

1.4   A further underlying objective of Internal Audit is to assist Rotherham MBC in achieving its key priorities. Internal Audit contributes to these aims by helping to promote a suitably secure and robust internal control environment which allows a focus to be maintained on these key priorities.

2.   Key Aims.

2.1   The key aims of Internal Audit are to:-

- Independently review, appraise and report on the adequacy of the systems of control throughout the Authority;

- Provide assurance to management that agreed policies are being implemented effectively;

- Provide assurance to management that adequate arrangements are in place so that internal controls mitigate risks to acceptable levels;

- Facilitate and encourage good practice in managing risks;

- Assist in promoting an environment and culture which will help deter and identify fraud;

- Be a source of advice on risk and control issues;

- Recommend improvements in control, performance and productivity as a contribution towards achieving corporate objectives;

- Work in partnership with the Council's external auditor.

3.   Basis of the Plan.

The plan has been prepared in line with the requirements of the CIPFA Code of Practice for Internal Audit. The Code expects that the plan will be risk based and informed by the organisation's risk management, performance management and other assurance processes.

A schedule of work included in the annual plan is set out in **Appendix 1**. There are five main strands to the plan:

Mandatory Work

Other 'must do' work

Follow-up work

'Responsive' work

Risk Related Work
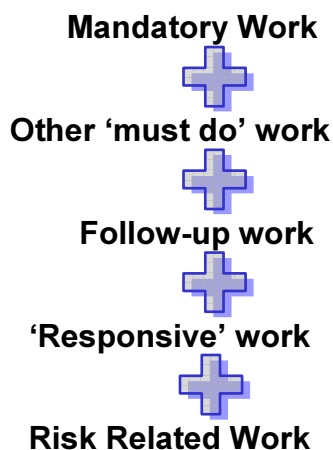
3.1   Mandatory Work.

Mandatory work is work done to enable the Director of Audit and Asset Management to form his opinion on the adequacy and effectiveness of the control environment. It also helps the Strategic Director of Resources to fulfil his responsibilities to ensure the proper administration of the Council's financial affairs. This includes:

- Review of fundamental systems, including ensuring there are adequate controls in place to produce accurate and complete Statutory Accounts. This internal audit work is relied on by external audit when carrying out their audit of the Council's Statement of Accounts and reduces external audit fees.

- Risk based reviews of the adequacy of the internal control frameworks surrounding the systems of financial administration within directorates.

- Programme of ICT Audit.

- Programme of Anti Fraud and Corruption activity.

- The audit of maintained schools.

Our approach to identifying areas to be covered by the audit plan has involved reviewing a range of information emanating from:

- Analysis of income and expenditure (including revenue/capital budgets)

- Cumulative audit knowledge and experience

- Review of key plans, reports and press coverage

- Discussions with management. Internal Audit consulted Strategic and Service Directors during the audit planning process. Where appropriate Internal Audit has incorporated any relevant priorities identified within the Plan.

- Existing management and control environments, including information relating to any systems changes

- Assessment of the sensitivity of areas under consideration

- Professional judgement on the risk of fraud or error.

3.2   Other 'Must Do' Work.

Other 'must do' work includes:

- Participation in the Audit Commission's National Fraud Initiative.

- Provision of specialist advice which is charged for, including the provision of ICT work at Barnsley Council.

- Auditing specific grant claims.

3.3   Follow-up Work

Targeted follow up is designed to maximise the benefit of the original work, by ensuring agreed recommendations have been implemented and appropriate outcomes achieved. A specific provision has been made in the plan for follow up work. This is in line with previous recommendations made by KPMG and reflects good practice.

3.4   Responsive Work.

A separate time allocation is made within the plan to deal with emerging risks and requests for advice / audit work which arise throughout the year. By definition this is difficult to plan for, and an allocation is made on the basis of our previous experience. The principal sources of responsive work arise from requests from management for support and advice, items reported under the Council's Confidential Reporting Code and issues identified during the conduct of audits. Internal Audit's ability to respond promptly to issues of this nature is highly valued and can often highlight some of the more significant items of concern.

3.5 Risk Related Work

Internal Audit aims to provide assurance to management, Members and other stakeholders that the Council's risks are being effectively identified and adequately mitigated.

We review the Council's Risk Registers to identify the key risks faced by the Council in delivering its objectives as set out within the Community Strategy and Corporate Plan. Account is also taken as to whether there is likely to be any external examination / assurance provided in relation to a particular risk or risks e.g. KPMG work or other external inspections e.g., OFSTED, Care Quality Commission etc. Internal Audit is mindful to avoid any possible duplication of effort in this regard.

Some areas to be covered under this part of the audit plan are shown below:

Priority	Rationale / Coverage
Housing Repairs and Maintenance Contracts	We will review the adequacy of the Council's contract monitoring arrangements with Willmott Dixons and Morrisons, focusing in particular on the processes for the sharing of risk and rewards in accordance with Open Book Accounting principles.
Developments in Local Government Finance	We will work with the Revenues and Benefits Service to help the Council prepare for the reform of the Council Tax Benefits system and the introduction of localised Business Rates.
Major Contracts	We will review the arrangements in place for the procurement and delivery of major contracts, in order to help the Council to minimise its risks in these areas. We plan to undertake specific pieces of work on the A57 road improvement and Maltby Lilly Hall Primary School.
Value For Money	This work will focus on areas where it might be possible for the Council to achieve savings through better arrangements, for example relating to procurement and / or contract management.
Budget reductions and other, related, change programmes	We will consider the implications for control arrangements of any changes resulting from the implementation of the savings (e.g. changes to structure and/or processes that could affect the internal control environment).
Risk Management Arrangements	We will perform a review of risk management arrangements both corporately and in each directorate. Depending on the degree of reliance we are able to place on the arrangements, we may need to carry out further work in specific areas to help the services manage risks.

4.   **Audit Resources.**

       At the start of the 2011/12 financial year, Internal Audit had 13.3 FTE staff. For 2012/13, resources reduced to 12.9 FTE.

       Should there be any further significant change in the resources available during the year, e.g. further vacant posts, then the plan will be prioritised to ensure the principal risks are addressed. Where necessary, additional resources would be sought to ensure sufficient work can be completed to fulfil Internal Audit's objectives.

       In preparing the audit plan the total number of 'available audit days' is calculated by making proper and adequate provision against the total working days available for known and estimated non-productive time, e.g. annual leave, estimated sickness absence, training, management and administration, etc (**See Appendix 2**).

5.   **Summary of 2012/13 Audit Plan.**

       5.1   Detailed below is the proposed allocation of resources for 2012/13 compared to 2011/12 at a summary level.

Activity	Planned Days 2011/12	Planned Days 2012/13
Mandatory Work:		
Corporate Systems	315	295
Directorate Systems	371	446
ICT Audit	205	135
Anti Fraud & Corruption Work	130	150
Schools	250	195
sub-total	**1271**	**1221**
Other 'Must do' work:		
National Fraud Initiative	45	40
2010 Rotherham Ltd.	15	0
Digital Region Limited	35	0
ICT Audit – Barnsley MBC	5	5
Grant Certification	40	25
sub-total	**140**	**70**
Follow up work	**45**	**45**
Emerging Risks / Responsive work	**410**	**397**
Risk Related Work	**290**	**298**
TOTAL	**2156**	**2031**

6.   **Emerging risks and revisions to the plan**

       There is increasing pressure on internal audit sections to manage within shorter timeframes, to have flexible plans and resources to adapt to emerging risks. Once the Internal Audit Plan is approved, it is subject to constant and ongoing review

throughout the year. This is to ensure that it reflects any new or changed priorities that may arise during the course of the year.

Progress against the plan is regularly monitored as part of Internal Audit's performance management arrangements and is reported quarterly to Audit Committee. Any significant amendments to the plan will be reported to the Audit Committee.

7. **The benefits of Internal Audit.**

Internal Audit:

- Is a powerful aid to management and corporately helps the Council to achieve its objectives and priorities

- Ensures there is a strong control and governance framework operating within the Council

- Deters, detects and reduces frauds

- Helps minimise external audit fees.

Internal Audit also considers the external auditor's plan to co-ordinate our work and avoid any unnecessary duplication of effort.

APPENDIX 1: DETAILED AUDIT PLAN 2012/13:

Audit Activity	Days
Corporate Systems	**295**
Housing Rents	
Debtors	
Creditors	
Payroll	
Housing and Council Tax Benefits	
Council Tax	
National Non Domestic Rates	
Treasury Management	
Capital	
Procurement	
Annual Governance Statement	
Directorate Systems	**446**
Children and Young People Services	
Schools Financial Value Standard	
Special Educational Needs Services	
Children's Social Care	
Fostering	
Schools Catering Service	
Pupil Referral Units	
Environment and Development Services	
Parking Services	
Cultural Services	
Markets	
Highways Network Management	
Waste Services	
Neighbourhoods and Adult Services	
Aids and Adaptations	
Housing Asset Register	
Housing – Miscellaneous Income	
Housing Tenancy Allocation	
Learning Disabilities Service	
Mental Health (Independent Sector)	
Older People (Independent Sector)	
Older People (Care in People's Homes)	
Direct Payments	
Supporting People	
Resources	
Legal Services: Debt Recovery	
Acquisition and Disposal of Property	
Information Governance	
Anti Fraud and Corruption	**150**
Pro-active Anti Fraud and Corruption work	
Anti Fraud and Corruption Strategy	
Training, advice and guidance	
Investigations	

Audit Activity	Days
ICT Audit	**135**
Mobile Devices	
Network	
ICT Business Continuity Planning	
Application Controls	
Payroll Systems Development	
Electronic Storage of Invoices	
Integrated Housing System	
Schools	**195**
Primary Schools	
Secondary Schools	
Themed Audits	
Other Must Do Work	**70**
National Fraud Initiative	
ICT Audit: Barnsley MBC	
Certification of Grant Claims	
Follow Up Work	**45**
Responsive Work / Provision of Advice	**397**
Risk Related Work	**298**
Corporate	
Control implications of budget reductions	
Value for Money Studies	
CYPS	
CYPS Risk Management Arrangements	
Schools Major Works Contracts	
Maltby Lilly Hall Primary School Construction Work	
EDS	
EDS Risk Management Arrangements	
Major Contracts e.g. A57 Road Improvement	
NAS	
NAS Risk Management Arrangements	
Open Book Accounting Review: Housing Repair and Maintenance Contract	
Transfer of Responsibility for Public Health	
Resources	
Resources Risk Management Arrangements	
Implementation of Localism Act	
Reform of Council Tax Benefits Framework and Local Business Rates	
TOTAL DAYS	**2031**

APPENDIX 2

CALCULATION OF AUDIT RESOURCES 2012/13

Gross days available	11/12	12/13
Internal Audit Establishment following restructure	3468	3344
Less – Vacant Posts	0	0
Less – Maternity Leave	0	0
Gross days	**3468**	**3344**
Less :-		
Annual leave, statutory leave and concessionary days	545	551
Elections	10	10
Sickness	53	51
Service Development	0	20
Professional Training and CPD	134	100
Management and supervision	310	290
Administration	120	120
Professional meetings	46	42
	-1218	**-1194**
Gross audit days available	**2250**	**2150**
Less – 2011/12 work b/f	94	119
Net audit days available for 2012/13	**2156**	**2031**

10

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	25th April 2012
3.	Title:	Audit Committee Annual Report 2011/12
4.	Directorate:	Resources

5. Summary

This report refers to and contains, at Appendix A, a draft Audit Committee Annual Report 2011/12. The Annual Report shows the Audit Committee has successfully fulfilled its terms of reference and has helped to improve the Council's governance arrangements and its overall control environment.

6. Recommendations

The Audit Committee is asked:

- **To agree the attached annual report for the year 2011/12**

- **To agree the Chair should present the report to the next appropriate Cabinet and Council Meetings**

7. Proposals and Details

The Audit Committee's Terms of Reference and best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees" require the Audit Committee to complete an annual report.

A copy of a draft Annual Report 2011/12 is attached at **Appendix A**. It shows key information relating to the Committee, its achievements during the year and key targets for 2012/13.

The Audit Committee has previously been commended by the external auditor and the Annual Report shows that it has successfully fulfilled its terms of reference and has improved the Council's governance arrangements and its control environment.

It is proposed that the report is agreed by the Audit Committee and that the Annual Report is presented to the next appropriate Cabinet and Council meetings.

8. Finance

There are no direct financial implications.

9. Risks and Uncertainties

The preparation of an Annual Report is in line with best practice.

10. Policy and Performance Agenda Implications

Good Governance is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation

"A Toolkit for Local Authority Audit Committees", CIPFA, IPF, 2006

Contact Names:

Colin Earl, Director of Internal Audit & Asset Management, x22033
Steve Pearson, Audit Manager, x23293

Appendices:
Appendix A   Audit Committee Annual Report 2011/12

AUDIT   COMMITTEE

ANNUAL REPORT 2011/12

Councillor A Sangster, Chair
Councillor B Kaye, Vice-Chair

Rotherham
Metropolitan
Borough Council
Where Everyone Matters

FOREWORD BY THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee's 2011/12 Annual Report. The report shows the contribution the Audit Committee has made to the achievement of improved governance and internal control within the Council.

The Audit Committee oversees the management of risks within the Council and the operation and effectiveness of the Council's internal control arrangements. It fulfils this role by considering and approving reports from officers responsible for financial management and governance within the Council and from the Council's external auditors. Where relevant, the Committee also makes recommendations for action to address any deficiencies identified by or reported to the Audit Committee.

This year we have considered various emerging risks and priorities, including several developments in respect of fraud and corruption. Members were made aware of new Bribery Legislation and a new Government-led strategy (Fighting Fraud Locally) to combat fraud and corruption in the UK. Against this background, the Council's own Anti – Fraud and Corruption Policy, Strategy and Action Plan were all updated and continue to comply with best practice.

We have continued to work with colleagues across Rotherham, including audit committee Members from the Health, Police, Fire and Probation Services. This is enabling us to look at cross-cutting areas of development and risk, including the implications of major change programmes in the Police Service and the NHS.

In my foreword last year I noted that 2011/12 would see the continuation of a prolonged period of austerity and this has well and truly been the case. Rotherham Council has had to achieve further savings of £20m to produce a balanced budget for 2012/13. As an Audit Committee we want to help the Council to manage the risks associated with the substantial changes brought about by this level of reduction. This will continue to be a key priority for us in 2012/13. We will also want to ensure the Council maintains the high standards of financial management and control it has achieved.

Finally, I would like to thank my colleague Members sitting on the Audit Committee during the year for the work they have done to help the Committee to fulfil its terms of reference effectively. And, I thank all officers and Members who have responded positively to the Audit Committee over the year, when questions have been asked and information requested.

Councillor Alex Sangster
Chair, Audit Committee 2011/12

AUDIT COMMITTEE: ANNUAL REPORT 2011/12

C O N T E N T S

INTRODUCTION

This Annual report is produced in accordance with latest best practice*[1] and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has helped the Council to improve its governance and control environments.

SOME KEY INFORMATION

Audit Committee Membership
The Audit Committee has 5 Members:

Councillor Alex Sangster - Chair
Councillor Barry Kaye - Vice-Chair
Councillor Neil License
Councillor Kath Sims
Councillor John Gilding

In addition, Councillor Jahangir Akhtar, Deputy Leader (with responsibility for Resources), has an invitation to attend Audit Committee meetings. There is strong officer support to the Audit Committee, through the regular attendance of the Strategic Director of Resources, the Director of Legal Services, the Director of Finance, and the Director of Internal Audit & Asset Management. Other officers attend as and when appropriate, including the Chief Executive.

Key features of the Audit Committee and its operation
Comparison against best practice illustrates the Audit Committee's strengths:

Best Practice	Expectation	Met?	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council
Number of Members	3-5	√	The Committee has 5 Members
Number of meetings	Aligned to business needs	√	The frequency of meetings enables all business to be considered in a timely manner
Co-option	To be considered relative to skills	√	Training is provided to increase Members' skills
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the model ToR
Skills and training	Members have sufficient skills for the job	√	General and, through the PDR process, specific training is provided to increase Members' skills

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[1] Best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees"

Meetings and attendance

The Audit Committee meets normally on the penultimate Wednesday of each month. There have been 10 meetings between May 2011 and April 2012 (no meeting was held in August and November 2011). Attendance by Members was a very good 86% (80% in 2010/11).

COMMITTEE ACTIVITY 2011/12

Terms of Reference

The Audit Committee's terms of reference cover 6 main areas and are copied at **Appendix 1** to this Annual Report. The Committee's work and outcomes in each of its areas of responsibility are summarised in the following sub-sections.

Internal Audit

The Audit Committee:
- Approved the Chief Auditor's audit plan
- Considered quarterly reports produced by the Chief Auditor, highlighting internal audit work completed, internal audit performance against key indicators, management's response to recommendations and any significant issues arising during the period
- Considered the Chief Auditor's annual report and opinion on the Council's control environment
- Considered the statutory review of the effectiveness of the system of internal audit
- Ensured internal and external audit plans were complementary and provided optimum use of the total audit resource
- Received and considered information on the performance of the internal audit team.

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made and agreed.

External Audit

The Audit Committee:
- Considered the external auditor's audit plan
- Considered progress against the plan presented by the external auditor
- Received and considered all external audit and inspection reports issued in the year and considered management's response to them, ensuring robust and thorough responses
- Reviewed the Council's progress on all external audit and inspection recommendations on a regular basis and asked managers to explain progress, thereby holding them to account.

We continue to provide support to external audit to ensure management is responsive to recommendations made and agreed.

Risk Management

The Audit Committee:
- Received and considered reports on the corporate risk register
- Enquired about specific risks and the application of risk management arrangements within directorates.

Internal Control and Governance

The Audit Committee:
- Agreed the Council's Annual Governance Statement and action plans to improve identified weaknesses
- Considered and supported changes to the Council's Anti-Fraud and Corruption Strategy
- Reviewed the effectiveness of the Council's Anti-Fraud and Corruption arrangements and progress in implementing the Council's Anti-Fraud and Corruption Plan
- Encouraged the adoption of the Audit Commission's National Fraud Initiative
- Approved the production of the Council's Annual Fraud Report.
- Considered developments including the Bribery Act 2010, the Government's 'Fighting Fraud Locally' Strategy, and the Audit Commission's 'Protecting the Public Purse'.

The Annual Governance Statement is a key document which summarises the Council's governance arrangements and the effectiveness of the arrangements during the year. The Audit Committee received a draft Annual Governance Statement prior to its inclusion in the Council's Statement of Accounts. This was intended to ensure the Audit Committee could more thoroughly review the robustness of the process for producing the Statement and the content of it. The Audit Committee was satisfied that:

- There was a comprehensive assurance framework in place to safeguard the Council's resources
- The framework was reliable and applied during the course of the year, including financial reporting, internal and external audit the Audit Committee's own arrangements.

Accounts

The Audit Committee:
- Agreed the Council's accounting policies

- Agreed the annual statement of accounts
- Received and considered the external auditor's report on the accounts, and ensured that the Council responded to the auditor's comments

The Audit Committee received regular reports on the Council's Treasury Management arrangements in the context of the economic downturn and also received the Prudential Indicators and Treasury Management and Investment Strategy 2012/13 to 2014/15.

Specific Issues

The Audit Committee also considered reports on the following specific issues which arose in the period:
- Consideration of a range of publications relevant to the Audit Committee's terms of reference, including Consultation on the Future of Local Public Audit [DCLG]
- Received a report on the performance of the sundry accounts function and how changes in the computer system and working practices had contributed to improved collection rates and more efficient account management.
- Considered a report summarising the Customer Inspection Service.

A full list of the reports considered by the Audit Committee can be found in **Appendix 2**.

OTHER ACTIVITIES

We have had 3 meetings during the year with colleagues across Rotherham, including audit committee Members from the Health, Police, Fire and Probation Services.

By looking collectively at governance related issues, we are able to identify cross-cutting areas of development and risk that could affect all of the services. This year we have considered, amongst other things, the implications and risks for partners of major change programmes in the Police Service and the NHS.

OUTCOMES

The Audit Committee aims to focus on adding value through its activity. By concentrating on outcomes the Committee can identify the benefits of its work. In particular this year the Audit Committee:

- Oversaw work on the Statement of Accounts which received a clean opinion from the external auditor

- Oversaw further development of the Council's Anti-Fraud and Corruption arrangements and the production of the Council's Annual Fraud Report
- Continued to meet with colleagues and reviewed Rotherham wide governance issues through the '*Rotherham Audit Committee*'
- Ensured there was appropriate focus on the risks associated with substantial budget reductions
- Encouraged and presided over a strengthening control environment, specifically by overseeing reviews of the Local Code of Corporate Governance, Risk Management and responses to external audit recommendations.

In addition, individual Members and the Audit Committee collectively continued to develop and learn about our roles, and deliver these roles effectively. We have received refresher sessions this year on International Financial Reporting Standards and Anti-Fraud and Corruption developments.

PLANS FOR 20112/13

We want to continue to develop and build on our current status. For 2012/13 we will:

- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice, in particular relating to partnerships' governance
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations
- Ensure we maintain and further improve our standards in relation to the production of accounts
- Continue to help the Council to manage the risk of fraud and corruption
- Continue to work with colleagues in other statutory services to collectively identify and manage cross-cutting risks arising from major developments.
- Equip existing and any new Members to fulfil our responsibilities by providing refresher training on financial arrangements and risk management.

During 2011/12 we have continued the progress we have made in previous years, and going forward we look to continue to be a champion of good governance at both a local and sub-regional level.

Councillors Alex Sangster (Chair) and Barry Kaye (Vice-Chair)
Rotherham MBC Audit Committee
April 2012

APPENDIX 1
AUDIT COMMITTEE

Statement of Purpose

To provide independent assurance of the adequacy of the audit and risk management frameworks and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

Terms of Reference

Internal Audit
To approve (but not direct) the internal audit manager's proposed strategy plan and performance and ensure that this gives an adequate level of assurance over the Council's main risks.

To consider summaries of specific internal audit reports as requested and seek assurance that action has been taken where necessary.

To consider reports from the internal audit manager on agreed recommendations not implemented within a reasonable timescale.

To consider reports dealing with the management and performance of the internal audit service.

To consider the internal audit manager's annual report and opinion.

To ensure that there are effective relationships between internal and external audit, inspection agencies and other relevant bodies.

External Audit
To consider and comment upon the external audit plan.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To consider specific reports as agreed with the external auditor.

To consider the adequacy of management response to external audit advice, recommendations and action plans.

To consider issues arising from the external auditor's annual management letter prior to its submission to the full council.

To commission work from internal and external audit.

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To provide feedback to the external auditor upon external audit performance.

Risk management
Consider the effectiveness of the Council's risk management arrangements and control environment.

Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.

Review the robustness of risk registers.

Internal control arrangements and Corporate Governance
To consider and review the statement of internal control prior to recommending it to the full Council.

Be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

Review the procedures followed in compiling the Annual Governance Statement and supporting documentation to determine the robustness of the evidence and assurances upon which the statement is based.

Consider and monitor action plans for addressing any significant internal control weaknesses disclosed.

To consider the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.

To maintain an overview of financial regulations and contract procedure rules.

To review and consider the adequacy of the Council's anti-fraud and corruption policy and to monitor its effectiveness throughout the Council.

To review and consider the statement of internal control prior to recommending.

Accounts
To consider and review the annual statement of accounts prior to recommending it to the full Council.

To consider the external auditor's report on the audit of the annual financial statement prior to recommending the audited statement of accounts to the full Council.

To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit.

<u>General</u>
To review any issue referred by the Council, a Council body, the Chief Executive, an Executive Director, the Section 151 Officer or the Monitoring Officer.

To submit for consideration by the full council an annual report as to the work of the committee at the end of each financial year.

To liaise with the Audit Committees of partner organisations and other South Yorkshire authorities over the mutual exchange of views, good practice and approaches to issues of common concern.

AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
Internal Audit									
Internal Audit Plan 2011/12	Approved								
Annual Report of Head of Internal Audit Services	Received								
Internal Audit Progress Report				Received		Received			Received
Annual Fraud Report			Received						
Bribery Act						Received			
Anti Fraud and Corruption arrangements							Approved		
Protecting the Public Purse 2011 – Fighting Fraud Against Local Government							Received		
Anti Fraud and Corruption Policy and Strategy - revision							Approved		
External Audit									
External Audit Plan 2011/12 - proposed		Approved							
External Audit Plan 2011/12									Received
Audit and Inspection Recommendations Update			Received		Received			Received	
External Audit Report 2010/11 [Interim]			Received						
Grants Report 2011/12								February	
Annual Audit Letter 2010/11						Received			

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AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
Risk Management									
Corporate Risk Register					Received			Received	
Governance									
Annual Governance Statement 2010/11	Received								
Accounts									
Statement of Accounts 2010/11 [unaudited]			Approved						
Statement of Accounts 2010/11				Approved					
Annual Treasury Management and Prudential Indicators 2010/11				Approved					
Treasury Management and Prudential Indicators 2011/12 [mid - year]					Received				
Prudential Indicators and Treasury Management and Investment Strategy 2012/13 to 2014/15								Approved	
Closure of the 2011/12 Accounts 2011/12									Approved
Sundry Accounts Performance 2010/11		Received							
Customer Inspection Service					Received				

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AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
General and Committee Working Arrangements									
Communities and Local Government – Consultation on the future of Local Public Audit	Received								
Audit Committee Work Programme	Approved								
Audit Committee Update – issue 5 – various issues		Received							
Audit Committee Update – issue 6 – Partnerships' Governance						Received			
Audit Committee Self Assessment						Received			