

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	24 th April 2013
3.	Title:	Internal Audit Plan
4.	Directorate:	Resources

5. Summary

This report refers to the draft Internal Audit Plan for 2013/14.

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

6. Recommendations

The Audit Committee is asked:

- **To support the Internal Audit Plan for 2013/14.**

7. Proposals and Details

Internal Audit Plan

Attached at **Appendix A** is the draft 2013/14 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 new UK Public Sector Internal Audit Standards, 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 Chief Auditor to provide his opinion on the adequacy of the Council's control environment and its operation during the year. This work assists the Section 151 Officer (at Rotherham this is the Director of Financial Services) to fulfil his statutory responsibility to ensure the proper administration of the Council's financial affairs. This area of the Plan also contributes to the body of evidence supporting the Annual Governance Statement.
- 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 and responsive work. This includes the investigation of fraud and other irregularities and the provision of advice to Council managers on internal control issues.
- 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 2013/14, compared with 2012/13, is provided in the table below:-

Activity	Planned Days 2012/13	Planned Days 2013/14
Mandatory Work:		
Corporate Systems	295	265
Directorate Systems	446	500
ICT Audit	135	90
Anti Fraud & Corruption Work	150	85
Schools	195	147
sub-total	1221	1087
Other 'Must do' work:		
National Fraud Initiative	40	40
ICT Audit – Barnsley MBC	5	0
Grant Certification	25	22
sub-total	70	62
Follow up work	45	30
Emerging Risks / Responsive work	397	303
Risk Related Work	298	225
TOTAL	2031	1707

Main points and 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 meet our statutory requirements and deliver the work required by the Council's external auditor, KPMG.
- We have further refined our approach to Corporate Systems audits resulting in an efficiency saving of 30 days, whilst still enabling us to meet the requirements of KPMG.
- There has been an increase in planned audit time for Directorate Systems. This reflects our judgement as to the increased risks faced by the Council at a time when services are being reconfigured against a backdrop of major budget reductions.
- Given the reduction in audit resources and the increased risk of fraud due to the economic climate, consideration of anti-fraud and corruption arrangements will be integral to every audit assignment. Consequently, it has been possible to reduce the number of planned days allocated to specific Anti Fraud and Corruption work within the Plan. Conversely, the time allocated to Directorate Systems has increased, as explained above.
- Following on from earlier reviews of our approach to the audit of schools, we have further refined our approach in recent months to improve efficiency. This has resulted in a further reduction in the number of days required for school audit activity. It is also the case that a number of maintained schools have transferred to academy status and as such are no longer within the scope of our Internal Audit activity. During 2013/14 we intend to explore the possibility of providing assurance

and advisory services to academies in order to retain our good relationships with schools and generate additional income for the Council.

- The plan includes an allocation of 30 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 contingency has been made to provide for emerging risks and 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. Due to the budget reductions it has been necessary to reduce the time allocated to this area.
- A proportion of the plan is directly linked to corporate and service risks and, in particular, how these risks are being managed.

The Audit Committee is asked to support the Internal Audit Plan for 2013/14.

8. Finance.

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

9. Risks and Uncertainties.

The Director of Financial Services is required to make 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 Director of Financial Services from meeting his and the Council's statutory responsibilities.

Failure to deliver a plan which complies with the new UK Public Sector Internal Audit Standards, and meets the expectations of the Council's External Auditors, KPMG, could lead to criticism from them. 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 Council's objectives.

11. Background Papers and Consultation.

UK Public Sector Internal Audit Standards
Strategic Leadership Team

Contact Names:

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APPENDIX A
INTERNAL AUDIT PLAN
(ATTACHED)

INTERNAL AUDIT

AUDIT PLAN 2013/14

**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 2013/14.

The Public Sector Internal Audit Standards defines Internal Audit as follows:-

“Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

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 Director of Financial Services 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.

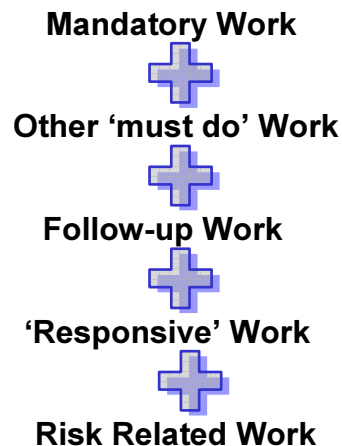
2.1 The key aims of Internal Audit are to:-

- 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 Public Sector Internal Audit Standards. These Standards expect 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:



3.1 Mandatory Work.

Mandatory work is carried out to enable the Chief Auditor to form his opinion on the adequacy and effectiveness of the Council's control environment. It also helps the Director of Financial Services to fulfil his responsibilities to ensure the proper administration of the Council's financial affairs. This area of the Plan includes:-

- Review of fundamental systems, including ensuring there are adequate controls in place to administer the large flows of income and expenditure and to produce an accurate and complete Statement of Accounts. This internal audit work is relied on by external audit and helps to reduce 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 budgets and the capital programme.
- Cumulative audit knowledge and experience.

- Review of key plans, reports and media coverage.
- Discussions with management. Internal Audit consulted Strategic and Service Directors during the audit planning process and, 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.
- Certification of 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 or 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 reveal some of the more significant items of concern.

3.5 Risk Related Work

Internal Audit aims to provide assurance to management, elected 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. Account is also taken as to whether there are any other assurance mechanisms that can be relied upon such as external inspection regimes e.g., OFSTED, Care Quality Commission etc. In the context of reduced resources, 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 compilation of the cost collection workbooks in accordance with Open Book Accounting principles.
Schools Themed Audits.	We will review information security and data protection arrangements within a selection of schools.
Contract Audits.	We will review the arrangements in place for the major contracts, in order to help the Council to minimise its risks in these areas. These will include, for example, the A57 road improvement works, Maltby Academy, and Rotherham Townscape Heritage Initiatives.
Corporate Risk Register (Red Risks).	We will examine the Council's Corporate Risk register and review risk management arrangements for the high level corporate red risks. We will seek assurances that the major risks are being managed.
Implementation of the Integrated Housing Management System	The Council is introducing a new integrated housing management system. We will work with management to ensure that robust controls are built into this from the outset.
Implications of Welfare Reform and Changes to the National Non Domestic Rates System.	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.

4. Audit Resources.

At the start of the 2012/13 financial year, Internal Audit had 12.9 FTE staff. For 2013/14, resources reduced to 10.3 FTE.

Should there be any further significant change in the resources available during the year, e.g. additional vacant posts, then the plan will be prioritised to ensure that the main 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, sickness absence, training, management and administration, etc. (**See Appendix 2**).

5. Summary of 2013/14 Audit Plan.

5.1 Detailed below is the proposed allocation of resources for 2013/14 compared to 2012/13 at a summary level.

Activity	Planned Days 2012/13	Planned Days 2013/14
Mandatory Work:		
Corporate Systems	295	265
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6. Emerging Risks and Revisions to the Plan

There is increasing pressure on Internal Audit sections to manage within shorter timeframes and 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 2013/14:

Audit Activity	Days
Corporate Systems	265
Housing Rents	
Debtors	
Creditors	
Payroll	
Housing and Council Tax Benefits	
Council Tax	
National Non Domestic Rates	
Income / Cashiers	
Treasury Management	
Annual Governance Statement	
Work for external auditor, KPMG	
Directorate Systems	500
Children and Young People Services	
Safeguarding and Corporate Parenting	
Children's Disability Services	
Children's Centres	
Schools Catering Service	
Schools Music Service	
Environment and Development Services	
Museums and Arts	
Civic Theatre	
Libraries	
Local Land Charges	
Markets	
Business Centres	
Hire of Plant and Equipment	
Waste Services	
Parks and Green Spaces	
Hellaby Depot	
Neighbourhoods and Adult Services	
Licensing	
Residential and Nursing Care	
Day Care	
Care In People's Homes	
Direct Payments	
RMBC Social Services Establishments	
Furnished Homes	

Audit Activity	Days
Resources	
Insurance Fund	
Logasnet	
Legal Services Income	
Members Allowances	
Carbon Reduction Commitment	
Commercial Rents	
Public Buildings	
Anti Fraud and Corruption	85
Pro active Anti Fraud and Corruption work	
Audit Commission Fraud Return	
Anti Fraud and Corruption Strategy	
Training, advice and guidance	
Investigations	
ICT Audit	90
PC and Mobile Devices	
Network	
Applications	
Advice to DMBC	
Systems Development	
Schools	147
Schools Financial Value Standard	
Primary Schools	
Secondary Schools	
Nurseries	
Other Must Do Work	62
National Fraud Initiative	
Certification of Grant Claims	
Follow Up Work	30
Responsive Work / Provision of Advice	303
Risk Related Work	225
Schools ICT Arrangements	
Housing Repairs and Maintenance Contract	
Review of Corporate Risks	
Contract Audit – A57, Maltby Academy; Rotherham Heritage	
Implementation of Integrated Housing Management System	
Implications of Welfare Reform and Changes to the National Non Domestic Rates System	
TOTAL DAYS	1707

APPENDIX 2

CALCULATION OF AUDIT RESOURCES 2013/14

Gross days available	12/13	13/14
Internal Audit Establishment Following Restructure	3344	2614
Less – Vacant Posts	0	0
Less – Maternity Leave	0	0
Gross days	3344	2614
Less :-		
Annual Leave, Statutory Leave & Concessionary Days	551	364
Elections	10	0
Sickness	51	73
Service Development	20	30
Professional Training and CPD	152	122
Management and Supervision	290	193
Administration	120	60
	-1194	-842
Gross audit days available	2150	1772
Less – 2012/13 work b/f	119	65
Net Audit Days Available	2031	1707