

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	23 rd April 2014
3.	Title:	Internal Audit Plan
4.	Directorate:	Environment & Development Services

5. Summary

This report refers to the draft Internal Audit Plan for 2014/15.

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 2014/15.**

7. Proposals and Details

Internal Audit Plan

Attached at **Appendix A** is the draft 2014/15 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:

- (i) 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.
- (ii) Must-do work – including the Audit Commission's National Fraud Initiative and the certification of grant claims.
- (iii) An allowance for follow-up work in areas where significant weaknesses were identified during the last audit.
- (iv) 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.
- (v) 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 3.6 in the attached plan).

A summary of the areas to be covered in 2014/15, compared with 2013/14, is provided in the following table: -

Activity	Planned Days 2013/14	Planned Days 2014/15
Mandatory Work:		
Corporate Systems	265	185
Directorate Systems	500	436
ICT Audit	90	30
Anti Fraud & Corruption Work	85	35
Schools	147	88
sub-total	1087	774
Other 'Must do' work:		
National Fraud Initiative	40	20
Grant Certification	22	46
sub-total	62	66
Follow up work	30	30
Emerging Risks/Responsive/Commissioned work	303	265
Risk Related Work	225	220
Work for Outside Bodies (Wingfield Academy)	0	10
TOTAL	1707	1365

The main points and changes to note include:

- There is an overall planned reduction in Internal Audit activity. This has partly been necessary in order to achieve savings in line with Council-wide budget reductions, but also due to one member of staff leaving at the end of 2013 and another that will shortly commence maternity leave. This equates to more than 300 less available days against last year's Plan. This is perilously close to a level that could mean we are unable to carry out sufficient work to fulfil our statutory responsibility and we would need to look at alternative resources if there are any further, significant, unforeseen reductions. We will mitigate the position by carrying out a careful approach to risk-based planning and robust performance management of our resources.
- We have reduced coverage of Corporate Systems owing to the substantial coverage over many years, which has consistently shown these systems to be robust with good levels of internal control and consequently we believe these represent a lower risk.
- Similarly, our focus on ICT Audit has shifted towards the overall governance arrangements as opposed to examining specific systems in detail.
- 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.
- Following on from last year, we have continued to refine our approach to the audit of schools to improve efficiency. This has allowed us to further reduce 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. However, in 2013/14 we secured work at Wingfield Academy and during 2014/15 we intend to continue 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.

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:

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



INTERNAL AUDIT

AUDIT PLAN 2014/15

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

**Marc Bicknell BA (Hons) ACA
Chief Auditor**

Internal Audit Plan 2014/15

1. Purpose.

1.1 This document provides details of the Internal Audit annual plan for 2014/15.

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.

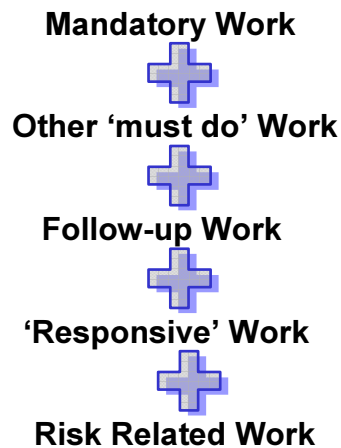
2.1 The key aims of Internal Audit are to:-

- 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.

Internal Audit Plan 2014/15

- 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 Commissioned Work

This year we have made provision for specific pieces of work commissioned by the Council's Statutory Officers (i.e. Chief Executive, Director of Finance and Director of Legal & Democratic Services).

3.6 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

Internal Audit Plan 2014/15

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
Public Buildings – Repairs & Maintenance.	We will review the contract management arrangements, focusing on the controls around the authorisation of payments.
Emergency Planning – Business Continuity.	We will examine the Council's policy and requirements for Business Continuity Planning and test Directorate / Service compliance.
Waste PFI.	We will evaluate the proposed system for controlling contract payments, including the process for verifying the volume of waste processed by the contractor.
A57 Improvements – Final Account.	Having already identified significant financial errors during the currency of this contract, we will examine the final account upon completion of the scheme to ensure accuracy of the final cost.
Direct Payments	Having previously identified control weaknesses, we will undertake follow up work on the process for verifying the appropriateness of expenditure made through the Direct Payments mechanism in both Adult Social Care and Children's Social Care.
Public Health – Primary Care Commissioned Services.	We will examine and test controls around billing and payment for externally contracted services for 'Pharmacy' and 'Sexual Health' services and also consider the risk of potential fraudulent claims.
Housing Repairs & Maintenance (Mears Group)	We will review the adequacy of the Council's contract monitoring arrangements with Mears Group (Morrisons), focusing on the processes for the compilation of the 'Cost Collection Workbook', in accordance with Open Book Accounting principles.
Housing Repairs & Maintenance (WDP)	We will conduct a similar review as above, for the Willmott Dixon Partnership.
Central Heating Replacement Programme	We have identified significant planned capital expenditure and will carry out probity testing to determine the accuracy and appropriateness of contractor payments.

4. Audit Resources.

At the start of the 2013/14 financial year, Internal Audit had 10.3 FTE staff. For 2014/15, resources have further reduced to 9.45 FTE.

Internal Audit Plan 2014/15

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 2014/15 Audit Plan.

Below is the proposed allocation of resources for 2014/15 compared to 2013/14 at a summary level.

Activity	Planned Days 2013/14	Planned Days 2014/15
Mandatory Work:		
Corporate Systems	265	185
Directorate Systems	500	436
ICT Audit	90	30
Anti Fraud & Corruption Work	85	35
Schools	147	88
sub-total	1087	774
Other 'Must do' Work:		
National Fraud Initiative	40	20
Grant Certification	22	46
sub-total	62	66
Follow up Work	30	30
Emerging Risks/Responsive/Commissioned work	303	265
Risk Related Work	225	220
Work for Outside Bodies (Wingfield Academy)	0	10
TOTAL	1707	1365

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 periodically to Audit Committee. Any significant amendments to the plan will be reported to the Audit Committee.

7. The Benefits of Internal Audit.

Internal Audit:-

Internal Audit Plan 2014/15

- 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 2014/15

Audit Activity	Days
Corporate Systems	185
Housing Rents	
Debtors	
Creditors	
Payroll	
Housing and Council Tax Reductions	
Council Tax	
National Non Domestic Rates	
Directorate Systems	436
Children and Young People Services	
Children's Centres	
Children's Homes	
Private School Fund (Wath & Thrybergh)	
Fostering & Adoption Allowances	
Environment and Development Services	
Business Centres	
Design & Projects billing arrangements	
Waste PFI – Small Entities Audit	
Rother Valley Country Park	
Highways – Final Accounts	
Hellaby Depot	
Schools – Final Accounts	
Libraries Services	
Customer Service Centres	
Markets	
Riverside House Café	
Thrybergh Country Park	
Bus Service Operators Grant	
Neighbourhoods and Adult Services	
Licensing Income	
Residential Homes	
Financial Assessments	
Learning Disabilities Residential Care/Intermediate Care	
Resources	
Members Expenses (follow-up)	
Anti Fraud and Corruption	35
Audit Commission Annual Fraud Return	
Local Data Matching	

Audit Activity	Days
ICT Audit	30
ICT Governance	
Schools	88
Primary Schools	
Secondary Schools	
Special Schools	
Pupil Referral Unit	
Other 'Must Do' Work	66
National Fraud Initiative	
Certification of Grant Claims	
Follow Up Work	30
Emerging Risks/Responsive/Commissioned work	265
Risk Related Work	220
Public Buildings - Repairs & Maintenance	
Emergency Planning – Business Continuity arrangements	
Waste PFI	
A57 Improvements – Final Account	
Direct Payments	
Public Health – Primary Care Commissioned Services	
Housing Repairs & Maintenance (Mears)	
Housing Repairs & Maintenance (WDP)	
Central Heating Replacement Programme	
Work for Outside Bodies	
Wingfield Academy	10
TOTAL DAYS	1365

APPENDIX 2

CALCULATION OF AUDIT RESOURCES 2014/15

Gross days available	13/14	14/15
Internal Audit Establishment	2614	2432
Less – Maternity Leave	0	178
Gross days	2614	2254
Less: -		
Annual Leave, Statutory Leave & Concessionary Days	364	335
Elections	0	4
Sickness	73	63
Service Development	30	50
Professional Training and CPD	122	100
Management and Supervision	193	180
Administration	60	65
	-842	-797
Gross audit days available	1772	1457
Less – work b/fwd from previous year	65	92
Net Audit Days Available	1707	1365