

Subject: Internal Audit Progress Report

Status: For Publication

Report to: Audit and Accounts Committee

Date: 30 September 2009

Report of: Head of Internal Audit

Portfolio

Holder: A Well Managed Council

Key Decision: No

Forward Plan

General Exception

Special Urgency

1. PURPOSE OF REPORT

- 1.1 To present the internal audit progress report for the period ending 31st August 2009.

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report impact directly on the following corporate priorities and associated corporate objective.

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

The Committee's Terms of Reference include the duty to monitor the adequacy and effectiveness of the internal audit service and to review internal audit reports.

4. BACKGROUND AND OPTIONS

- 4.1 In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the internal audit service, the Committee is asked to consider the audit inputs to the Audit Service assurance over the Authority's key controls
- 4.2 The report, at Appendix A, provides a brief summary of internal audit activity during the five months to 31st August of the 2009/10 financial year.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

5.1 Financial considerations are included in the main body of the report and appendix.

6. MONITORING OFFICER

6.1 Legal and governance matters are dealt with in the main body of the report.

7. HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT (ON BEHALF OF THE HEAD OF PAID SERVICE)

7.1 No HR implications.

8. CONCLUSION

8.1 The audit programme is progressing in line with the plan.

9. RECOMMENDATION(S)

9.1 The Committee is asked to consider the internal audit progress report for the five months to 31st August 2009.

10. CONSULTATION CARRIED OUT

10.1 N/A

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required No

Is an Equality Impact Assessment attached No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required No

Is a Biodiversity Impact Assessment attached No

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No background papers

Rossendale Borough Council

Internal Audit Service

Monitoring report for the period ended

31 August 2009



1 Purpose of this report

- 1.1 The Annual Audit Plan for 2009/10 was approved by the Audit Committee on 30 June 2009. This report reflects the approach agreed when Lancashire Audit Service was appointed as the Council's internal auditors. Our approach will essentially follow the same principles as we have established with you over the last year. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2009 to 31 August 2009.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by RBC staff during the course of our work.

2 Key issues and themes arising during the period

- 2.1 From the work undertaken to date, no significant weaknesses have been identified that would have a material impact upon the Council's internal control environment.

3 Internal audit work undertaken

Internal audit plan 2008/09

- 3.1 Three reviews that were ongoing as at 31st March 2009 have subsequently been finalised, relating to cash collection and banking; data quality; and leisure trust arrangements.

Cash collection and banking

There were no significant findings arising from this review and recommendations made to further improve control were deemed low priority. The system of internal control in this area was concluded to be adequate and effective.

Data quality

The arrangements relating to data quality and performance management were found to be adequate and generally effective, although these could be enhanced further by the development of performance measures for Legal Services and better use of the Council's Human Resources (HR) information system to manage training and development more effectively.

Client side management arrangement – Leisure Trust

The governance and monitoring arrangements designed to satisfy the actions approved by Cabinet and the Council concerning leisure provision provide adequate controls to enable achievement of the control objectives. The operation of these controls is, in the main, effective in addressing the risks associated.

Formal notification in terms of the role and specific responsibilities for the monitoring of targets and milestones set by the Leisure Trust within its corporate plan has not, however, been assigned. This role is important to ensure key milestones are met and therefore should be more clearly defined and communicated.

In addition, our follow up work in respect of recommendations raised in our review of this area in 2007/08 found that, of the eight recommendations raised, four have been

fully implemented whilst the remaining four recommendations are in progress and partly implemented.

We acknowledge that the current arrangements are an interim measure and the ongoing review of leisure will impact upon the client side management arrangements and is likely to result in changes in the governance and monitoring around the partnership. The implementation of the remaining recommendations is, to some extent, dependent upon the results from the leisure review and therefore further progress will be made following completion of the review.

Internal audit plan 2009/10

- 3.2 Work carried out during this period was in accordance with the agreed Audit Plan. Details of the progress to date, including assurance provided and key issues identified for each of the areas completed to date, are set out in the 'Summary of findings and Assurance' table which forms part of Section 4. Currently, this shows that 81 days have been spent in the five months since the start of the financial year to deliver the audit plan. This equates to 29% of the total audit activity of 280 days planned for the year.
- 3.3 However it should be noted, as indicated above, that part of this time relates to the finalisation of 2008/09 audits.
- 3.4 In respect of the balance of the 2009/10 plan, work has been programmed over the remainder of the year to ensure that all the areas identified are covered. As at 31st August 2009, eight audit reviews were ongoing and at varying states of completion. These relate to:
- Council Tax;
 - Housing Benefits overpayments;
 - General ledger and budgetary control;
 - Treasury management;
 - Project management;
 - Partnerships;
 - Fraud risk review;
 - National Fraud Initiative (NFI) work.
- 3.5 Outcomes arising from our work will be reported upon finalisation.

Resource input

3.6 The staff resource input for the five months to 31 August 2009 is as follows:

	Audit plan Days	Target %	Actual %
Head of Internal Audit	0	3	0
Principal Auditor	7	12-20	8
Senior Auditor (including IT)	24	25-35	30
Audit team members (including IT)	50	50-55	62
Total	81		100

4 Summary of findings

Overall summary and assurance provided

- 4.1 We have set out in the table on the following pages a brief summary of each review undertaken during the period and the areas to be covered in the remainder of the year. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business where work has been finalised. The key issues identified encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.
- 4.2 As the plan progresses, we will distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 4.3 The table indicates briefly with simple ticks (✓) and crosses (x) our overall assessment of each system where reviews have been finalised during the period and the assurance you may take from its operation in supporting effective internal control. A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Council Tax	10	3.5	6.5	-	-	Audit fieldwork in respect of this review is in progress and will be completed in October 2009. A draft report will be issued in due course.
Housing Benefits appeals	5	0	5	-	-	This review involving a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls is scheduled to be undertaken in October 2009.
Housing Benefit Overpayments	8	8.5	(0.5)	-	-	The draft audit report in respect of this review was issued in September 2009. Following receipt of management responses the final report will be issued.
National Non Domestic Rates (NNDR)	5	0	5	-	-	This review is scheduled to be undertaken in Quarter 3 of 2009/10.
General ledger and budgetary control	5	1	4	-	-	The terms of reference relating to this review have been issued and fieldwork will commence upon agreement of these.

System adequacy: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

System effectiveness: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended

Lancashire Audit Service: Rossendale Borough Council
Internal Audit monitoring report for the period ended 31 August 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Treasury Management	10	8.5	1.5	-	-	Audit fieldwork around treasury management is nearing completion and the results of this review will be reported to management in due course.
Asset Management	5	0	5	-	-	Audit scheduled to be undertaken in Q4.
Procurement	15	0	15	-	-	Audit scheduled to be undertaken in Q3.
Cash collection and banking	5	0	5	-	-	Audit scheduled to be undertaken in Q3.
Payroll	5	0	5	-	-	Audit scheduled to be undertaken in Q4.
Debtors	15	0	15	-	-	Audit scheduled to be undertaken in Q4.
Creditors	15	0	15	-	-	Audit scheduled to be undertaken in Q4.
Contingency for core systems work	5	0	5			
Focussed reviews						
Project Management	15	3.5	11.5	-	-	Relevant audit documentation and testing schedules have been produced surrounding this review. Audit fieldwork is currently in progress.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews(contd)</i>						
Partnerships	20	6.5	13.5	-	-	Audit fieldwork around a sample of key Council partnerships is currently underway and appointments have been arranged with key contacts to test the controls in place.
Fraud Risks	20	0.5	19.5	-	-	Following brief discussions with Council senior management a draft terms of reference has been produced and issued. Following agreement of the terms of reference our audit fieldwork will commence.
Data Quality	15	0	15			Audit scheduled to be undertaken in Q4.
National Fraud Initiative	15	1.5	13.5	-	-	Time spent to date by NFI key contact in liaising with Authority contacts regarding the investigation and follow up of data matching matches and results.
Contingency	8	0	8	-	-	Allowance for unforeseen changes to the annual internal audit plan.
<i>Specialist areas</i>						
Response to fraud/impropriety	10	0	10	-	-	We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Specialist areas(contd)						
IT Controls	20	0	20	-	-	The nature and detail of ICT audit work for 2009/10 is to be finalised shortly.
2008/09 audits carried forward						
Debtors	0	5.5	(5.5)	✓	✓	<p>The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2008/09.</p> <p>The recommendations raised in this report aim to reduce the risks of bad debts arising and ensure that debt recovery resources are not tied up, thereby potentially improving the council's debt management performance.</p> <p>In 2007/08 and 2008/09 debts were only considered for write off at year end. A more regular review of the options available for older debts is advisable to prevent debts that cannot be recovered from hindering the debt recovery system and to bring procedures in line with the council's Sundry Debt Management Policy.</p>
				<p>Some action has been taken in relation to each of the five recommendations agreed following the 2007/08 audit review, but there are other issues still to be considered. Further recommendations are made in this report to address these outstanding issues</p>		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Creditors	0	6	(6)	✓	✓	<p>The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2008/09.</p> <p>The time taken to pay creditor invoices is closely monitored and controls to help maintain and improve performance were found to be operating effectively.</p> <p>The "intelligent scanning" of invoices has been introduced since the last internal audit review of the creditors system in order to improve the efficiency of the payments process. Testing of creditor payments confirmed that the controls affected by this development are operating effectively.</p> <p>A potential duplicate payments report is not produced and reviewed to enable any duplicated transactions to be identified and addressed.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Cash collection and banking	0	1.5	(1.5)	✓	✓	The final report relating to this review was issued in July 2009. Whilst there were no significant findings, areas were identified where controls could be enhanced to further reduce the risks faced by the council. The eight recommendations in this report are all of low risk/priority.
				In our opinion the system of internal control over cash collection and banking within the council has adequate controls overall to fully achieve its control objectives and these controls are operating effectively.		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
National Non Domestic Rates (NNDR)	0	0.5	(0.5)	✓	✓	<p>The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2008/09.</p> <p>The Final audit report in respect of this review was issued in June 2009. Following changes in legislation around empty property rates we consider that it would be more efficient to specifically target empty properties that are in receipt of an exemption. We also recommended that in view of the introduction of a three month exemption period, the frequency of inspections should be increased. The implementation dates for the recommendations have been deferred to March 2010, to await the Government's decision over future relief/exemptions and possibility that all properties with a rateable value of £15,000 or less would be exempt from rates for 2009/10. Currently 400 properties fall within this category.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Client side management arrangements – Leisure Trust	0	4.5	(4.5)	✓	✓	<p>Formal notification in terms of the role and specific responsibilities for the monitoring of targets and milestones set by the Leisure Trust within its corporate plan has not been assigned. This role is important to ensure key milestones are met and therefore should be more clearly defined and communicated.</p> <p>In addition, our follow up work in respect of recommendations raised in our review of this area in 2007/08 found that, of the eight recommendations raised, four have been fully implemented whilst the remaining four recommendations are in progress and partly implemented.</p> <p>We acknowledge that the current arrangements are an interim measure and the ongoing review of leisure will impact upon the client side management arrangements and is likely to result in changes in the governance and monitoring around the partnership. The implementation of the remaining recommendations is, to some extent, dependent upon the results from the leisure review and therefore further progress will be made following completion of the review.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Data Quality	0	16.5	(16.5)	✓	✓	<p>There are areas where controls could be strengthened or enhanced to ensure that resources are used efficiently and effectively to improve the performance of services and reduce the risks faced in this area by the council. In particular, Legal Services does not currently have any performance measures or other effective means of:</p> <ul style="list-style-type: none"> • evidencing the achievements of the service; • demonstrating the quality, cost effectiveness and efficiency of the service; or • identifying where improvements to service delivery could or should be made. <p>The Acting Assistant Head of Legal Services is exploring how performance can be measured and the action plan with the 2009/10 business plan includes a target for achieving LEXCEL accreditation.</p> <p>Errors were identified on the spreadsheet used to collate municipal and household waste data and calculate the recycling and composting performance indicators. These errors mean that the reported quarterly performance figures for 2008/09 have been understated since quarter 1.</p>

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas						
Follow up reviews	5	0	5	-	-	A schedule containing recommendations raised during 2008/09 audits has been produced for subsequent follow up during 2009/10.
Risk assessment and strategic planning	5	0.5	4.5	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	3.5	2.5	N/A	N/A	This time covers Audit Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	4	6	N/A	N/A	This allocation covers the time required for the Committee reporting process as well as preparing the monitoring reports for the Head of Financial Services.
Liaison with senior management	14	1.5	12.5	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.
Other areas(contd)						
Liaison with Audit Commission	3	0.5	2.5	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Ad hoc advice and support	6	3	3	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
Total Days	280	81	199			

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