

Rossendale Borough Council

**Annual report of the Head of Internal Audit
for the year ended 31 March 2010**

Lancashire Audit Service

June 2010



ROSSENDALE BOROUGH COUNCIL

Internal Audit Service

Annual report for the year ended 31 March 2010

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1. Introduction

Purpose of this report

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom requires the Head of Internal Audit to provide a written report to those charged with governance, timed to support the statement on internal control – now the governance statement – which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents my opinion based upon the work the internal audit service has performed.
- 1.2 This report covers the period 1 April 2009 to 31 March 2010 and is timed to support the preparation of the annual governance statement on internal control for that year.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix 1 to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years, which have been the subject of discussions throughout the year with respective service managers and where applicable the senior management team during the course of our work.
- 1.5 Summaries of some of the key areas of our work have been reported to the Audit and Accounts Committee as they have been completed.

Acknowledgements

- 1.6 I am grateful for the assistance that has been provided to the internal audit service by the senior management teams and staff across the council in the course of our work during the year.

Ruth Lowry
Head of internal audit
Lancashire County Council

2. Assessment of internal controls

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can conclude that the Rossendale Borough Council's (council) internal control environment, risk management process and corporate governance, taken as a whole are adequate and generally effective. I have identified individual themes that present limited exceptions to this broad conclusion, and have set these out below.
- 2.2 Consequently, we are able to provide **substantial** assurance over the internal control environment. Definitions of the assurance levels used are attached as Appendix 2.
- 2.3 Whilst recognising there are control issues which need to be addressed, our work during the year has identified good areas of effective control too. As a result of our work this year no significant issues have been identified which would impact on the Authority's Annual Governance Statement and we can also confirm that good progress has been made in implementing recommendations raised in our previous year's reviews, although action is still required in some areas.

Key issues and themes

Core Financial Systems

- 2.4 Our work to date on the council's core financial systems (payroll, debtors, creditors, general ledger, cash and banking and council tax) has found that there are generally sound systems of internal control to achieve the control objectives. However, some weaknesses have been identified and we have made recommendations to strengthen the existing controls in this area. No high priority recommendations were raised as part of these reviews.
- 2.5 From our assessment of previous audit recommendations we also found that action is being taken towards actioning recommendations raised in the 2008/09 reviews.
- 2.6 We noted that the control surrounding **council tax** write off transactions on the Northgate system are inadequate, as it is possible for any member of the team to perform the write off transaction without a system authorisation level being required. Whilst there is a risk that unauthorised write offs may be processed there is no evidence in this review that this risk has materialised and our sample testing confirmed that these had been appropriately authorised and processed in accordance with established guidelines. An additional sample checking process was

established by the Service Assurance Team in April 2010 to mitigate the risk highlighted above.

- 2.7 Current self authorisation limits within the 'Authority financials' purchasing module which represent the amount up to which a user can self authorise a requisition vary between £0 and £15,000 from user to user. In most cases, the users reviewed also had the ability to receipt an order and since invoices are now scanned to the **creditors' module** and automatically matched to order and receipt details, in effect, there may be no separation of duties within the creditors system for purchases up to £15,000 in value. Our testing identified two such cases valued at £4,784 and £13,857. It is acknowledged that some reliance is placed on the pre payment run checks undertaken by the exchequer manager and finance manager to identify any potential fraudulent payments and that order related payments can only be made to suppliers that have been authorised to be set up on the purchasing module.
- 2.8 The 2008/09 recommendation that a duplicate payments report should be scheduled to be produced and reviewed on a regular basis so that potential duplicate transactions may be investigated, has not yet been implemented. It is acknowledged that the creditors system now produces a pre payment report detailing errors and potential duplicates, however, the development of a more specific post payment report of potential duplicates will further enhance the system in place.
- 2.9 The repayment of debt by instalments can be made either electronically by direct debit or manually by cheque or phone. Rejected direct debits are picked up as part of the direct debit run however where a manual payment is missed for one month a default automated letter is raised by the debtor's module and issued to the debtor requesting payment of the full amount for the year. This raises potential reputational issues for the council in that, the debtor may feel the action was too harsh considering only one payment has been missed. The exchequer services manager is currently reviewing the instalment process with a view to using the **debtors module** in a more efficient and effective manner. One potential improvement for consideration is the automated letter issued to debtors confirming instalment details and missed payments which could be customised to reflect the specialist nature of instalment invoices.
- 2.10 We worked closely with the Audit Commission in 2008/09 to structure our work to comply with their requirements and this approach has once again been adopted during 2009/10. Our change in approach to the core financial systems, which now provides an overview of each system and sample testing in accordance with Audit Commission requirements provides assurance that we have completed an appropriate level of systems documentation and audit testing for each core financial system. The Audit Commission rely on our work to complete their International Standards in Auditing (ISA) assessments.

Focussed Reviews

- 2.11 In our opinion the system of internal control over the management of **partnerships** that the council is involved with has generally adequate controls to achieve its control objectives. These controls are generally operating effectively in the areas covered by this review, except that it is not clear that an effective risk assessment has been undertaken for some of the partnerships assessed as part of our sample audit testing.
- 2.12 Certain differences were noted between the practices and procedures applied across partnerships which were of a more strategic nature compared with some service specific partnerships. One example of this is the Lancashire Strategic Partnership (LSP) which is managed and controlled under a separately established structure and includes an Executive Board. Much of the best practice evidenced by the LSP should be applied across the more operational partnerships to ensure an appropriate level of consistency and effectiveness.
- 2.13 It is essential that implications and risks are properly evaluated before committing to partnership arrangements. Some of the partnerships we assessed as part of our audit sample testing could not demonstrate that a risk assessment has been carried out and show how the identified risks will be managed.
- 2.14 The council's guidance on the partnership portal does not cover the need to obtain appropriate finance and legal officer clearance for involvement in partnerships. There is also no requirement for line managers to evidence their authorisation of participation in partnership arrangements. This may mean that responsibilities maybe taken on without full consideration of what is involved or without the legal authority to do so.
- 2.15 We have completed a review of the strategic **anti fraud and corruption** arrangements within the council. The overall objective of this review was to ensure that the council is demonstrating best practice and complying with current national guidance, as outlined in the most recent edition of the CIPFA Red Book 2 and other public sector guidance.
- 2.16 We confirmed that, in the main, the authority is complying with the best practice guidelines contained within the CIPFA Better Governance Forum publication 'Managing the Risk of Fraud' ('The Red Book 2')¹. We have however noted areas where there is scope for further development.
- 2.17 Currently, efforts and resources relating to fraud detection are concentrated on housing benefit activities. The council has assessed this to be an area of priority in respect of fraud and corruption related issues. Significant steps have been taken towards further developing the benefit fraud arrangements, which included the roll out of an electronic benefit

¹ CIPFA Red Book 2 (2008) Managing the Risk of Fraud (Actions to counter fraud and corruption)

fraud training package and appointment of the service assurance officer responsible for monitoring benefit fraud activity.

- 2.18 Whilst we support the valuable work being undertaken in this area, the council does not have the same practices in the detection of corporate fraud. Notwithstanding the above comment, we acknowledge the council's activities around awareness training and publicity to raise the profile of corporate fraud within the organisation and the wider community. We are however unable to establish a clear link between policy and operational work in respect of corporate fraud. This could be remedied through the development of a programme of work around existing fraud awareness which is then assessed and monitored on an annual basis.
- 2.19 Whilst we acknowledge that risks facing each respective service area are identified and recorded as part of the business planning cycle, the development of a corporate fraud risk register would enable any future proactive fraud related work to be targeted at those high priority areas emerging from this exercise.

Fraud/special investigations

- 2.20 We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.

National Fraud Initiative (NFI)

- 2.21 Our work has involved the management and coordination of the NFI exercise within the council. This exercise involves comparing electronic data to identify potential fraudulent transactions and is co-ordinated by the Audit Commission. The NFI exercise was extended during 2008 to include the electoral roll register, insurance claims, council tax and personal licences to supply alcohol.
- 2.22 Total savings of £25,133.62 have been identified, as part of the 2008/09 NFI exercise, mainly in relation to council tax single person discount, council tax rising 18s and housing benefit data matches.
- 2.23 In addition, the data matching exercise comparing Companies House data with the council's payroll and creditors' records highlighted four instances where council employees held directorship of a company which was also an existing creditor of the council. Internal audit work involved following up these specific data matches and confirmed that there were satisfactory explanations for all of the matches and there was no procurement related issues or financial risk to the council.
- 2.24 The detailed results of the 2008/09 NFI exercise will be reported to members as part of a separate report to this meeting of the Audit and Accounts Committee.

Implications for the Annual Governance Statement

- 2.25 Each head of service has a responsibility for maintaining a system of sound internal controls and risk management processes that support the achievement of the corporate and service objectives, and for reviewing their effectiveness. The work of internal audit may be used to assist and inform respective heads of service in their requirements to produce a service Assurance Statement on Internal Controls, which in turn may be included within the overall governance arrangements for the council.
- 2.26 We do not feel that any of the issues raised in this report are sufficiently significant to impact on the council's Annual Governance Statement.

3. Summary of internal audit work undertaken

Internal audit plan 2009/10

- 3.1 On 7 December 2005 the Cabinet approved a proposal for Lancashire County Council's Lancashire Audit Service to provide internal audit services for Rossendale Borough Council for three years from 1 April 2006, with an option for two further years. This report covers the first of the optional years available to the council as part of the agreement, and this has been subsequently approved by Scheme of Delegation dated 1 June 2009.
- 3.2 Work carried out during 2009/10 was in accordance with the audit plan presented and approved by Audit and Accounts Committee on 30 June 2009. Details of the assurance provided and key issues identified for each of the areas covered was provided to senior managers. A summary of our findings for key areas is to be found at section 5 of this report.
- 3.3 We have undertaken a total of 254 audit days against planned input of 280 days. The variance of 26 days relates to ongoing audit reviews at the end of the financial year which will be finalised and reported to the committee in due course. A summary of the work undertaken during 2009/10 is set out in Table 1 of this report.
- 3.4 This work has been undertaken with regular liaison with the Authority's external auditors to minimise any duplication.
- 3.5 Individual action plans have been agreed in respect of all the completed areas of work. These set out the management responses to each of our recommendations, and indicate that positive action has been, or will be taken. Implementation of these plans will be followed up as part of our 2010/11 work.

Follow up work

- 3.6 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Good progress has been made in implementing recommendations agreed with management, but revised action plans have been obtained detailing the progress to date and timescale for full implementation if this has not already been achieved.

Implications for the review of the effectiveness of the system of internal audit

- 3.7 The Accounts and Audit (Amendment) Regulations 2006 require that the council should undertake an annual review of the effectiveness of its system of internal audit and to report the findings of this review to the audit committee. Since the term "system of internal audit" does not have a

commonly understood meaning, the Technical Audit Panel of CIPFA has recently issued guidance which defines it as:

"The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation."

- 3.8 Each of the four elements of the system of internal audit as defined by the CIPFA Technical Audit Panel have been set out below, with an explanation of progress made by the council in achieving compliance against these:

1) The risk management system

- 3.9 Whilst risk management continues to be consolidated and embedded across the council there are clear arrangements in place for identifying, managing, reporting and reviewing risks across service areas within the Authority. There is also an established mechanism for cascading significant risks from service and operational plans onto the corporate risk register.
- 3.10 The council has widened the use of the performance management system, Covalent, and requires that service managers identify risks facing their respective areas and ensure these are continually managed and controlled. Elected members are involved and engaged in risk management through periodic reporting of corporate business risks to the Performance Overview and Scrutiny Committee and Cabinet.

2) Controls assurance

- 3.11 The internal audit service undertakes an assessment of the corporate risk register as part of its annual planning process.
- 3.12 The Audit and Accounts Committee, and ultimately the council, seeks assurance that these controls have been adequately designed and are operating effectively in practice. This assurance is available from a variety of sources including both external regulators and the council's internal audit service. To avoid duplication with other assurance providers and ensure that resources are maximised, the council needs to understand this framework of assurance; where assurance is required but not otherwise available, the internal audit service provides through its annual audit plan.
- 3.13 The internal audit service's audit plan for 2009/10 is available on the council's web-site under the Audit Committee meetings for 30 June 2009. The 2010/11 internal audit plan was submitted to the meeting of the Audit and Accounts Committee on 15 March 2010.

- 3.14 The resulting controls assurance will be reported to each meeting of the Audit and Accounts Committee, and is summarised in an annual report by the Head of Internal Audit.

3) Remedial action

- 3.15 The council's Audit and Accounts Committee considers periodic progress reports on internal audit work completed which include details of management responses to any significant issues reported. Reports to the Audit and Accounts Committee also include progress made in implementing audit recommendations.
- 3.16 Action plans relating to internal audit reports are monitored at the most appropriate level within the council to ensure the required action is undertaken to improve the operation of the relevant service area. The internal audit service follows up the issues it raises and recommendations it makes and reports where progress is unsatisfactory to the relevant senior officer and, if necessary, the Audit and Accounts Committee.

4) The operation of the Audit and Accounts Committee and the internal audit function to current codes and standards

- 3.17 The terms of reference and associated working practices of the Audit and Accounts Committee are aligned with those suggested by CIPFA. Its members receive annual briefings on the role of the committee and how they can best support this, as well as on the roles of internal and external audit.
- 3.18 It is good practice to periodically evaluate the effectiveness of the Audit and Accounts Committee. During 2009/10 internal audit facilitated a self assessment of the Audit and Accounts Committee which involved members completing a questionnaire. The results from this exercise were amalgamated by internal audit and subsequently reported to the Audit and Accounts Committee. This information will be used to shape future training and development plans for members of the Committee.
- 3.19 Lancashire Audit Service has been assessed by the Audit Commission as satisfactorily meeting the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. It has also undertaken its own self-assessment and has an action plan in place to address minor areas for improvement.

Internal audit plan 2010/11

- 3.20 The plan for the coming year amounts to a total resource of 280 audit days (2008/09: 280 days). This reflects the approach agreed when Lancashire Audit Service was appointed as Rossendale Borough Council's internal auditors.

- 3.21 The internal audit plan for 2010/11 was presented to the meeting of the Audit and Accounts Committee on 15 March 2010 for approval. Meetings will be held with the Authority's Head of Financial Services on a regular basis during 2010/11 to discuss the progress of the plan and any issues that may arise during the year which will impact on the audit coverage. Progress against this plan will be reported to the Audit and Accounts Committee on a regular basis throughout the year.

4 Summary of key findings

- 4.1 The table on the following pages sets out a brief summary of each review undertaken during the period and the areas to be covered in the remainder of the year. This indicates the planned and actual days we have spent on each area, 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 provide an overall level of assurance for each audit assignment and further, distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 4.3 The level of assurance provided on each assignment can be at one of four levels; full, substantial, limited and no assurance. Definitions of the assurance levels used are attached as Appendix 2.
- 4.4 The table will indicate 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.
- 4.5 **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.
- 4.6 **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.

Summary of our findings and assurance

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems					
Housing Benefit Overpayments	8	10	(2)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of the overpayments system has generally adequate controls to achieve its control objectives. Controls were generally operating effectively as intended.</p>	<p>The final audit report in respect of this review was issued in October 2009. We noted deficiencies in the reporting of performance, and overpayment coding processes which will require management attention. The criteria for coding overpayments as fraud has not been consistently applied resulting in failure to recover the maximum amount per week from ongoing benefit where this is applicable. Current quality checking procedures do not include checking of overpayments for accuracy and completeness. We noted two instances where there has been no action for more than 12 months on cases submitted for County Court action.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Council Tax	10	10	0	<p>Substantial Assurance</p> <p>In our opinion, with the exception of the write off authorisation process, the system of internal control over the operation of the council tax system has adequate controls to achieve its control objectives and these controls are generally operating effectively as intended.</p>	<p>We confirmed that the control surrounding write off transactions on the Northgate system are inadequate, as it is possible for any member of the team to perform the write transaction without a system authorisation level being required. Whilst there is a risk that unauthorised write offs may be processed there is no evidence in this review that this risk has materialised. The write off transactions sample tested in this audit have been appropriately authorised and processed in accordance with established guidelines. An additional sample checking process is to be established by the Service Assurance Team by April 2010 to mitigate this risk.</p>
Housing Benefits Appeals	5	3.5	1.5	-	<p>This review involved a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls. The fieldwork is now complete and a draft report was issued for management consideration in May 2010. The results of this review will be reported to members upon finalisation of the report.</p>
				-	

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
National Non Domestic Rates (NDR)	5	0	5	-	Following discussions with management internal audit work in relation to this review was scheduled for April 2010. Our audit fieldwork is now complete and a draft report is due to be issued for management consideration.
				-	
General ledger and budgetary control	5	7.5	(2.5)	Substantial Assurance	<p>Following removal of the former system administrator's user access the finance team were unable to generate certain system interface reports, and therefore the variances arising out of the daily creditors and debtors control account reconciliations could not be investigated. We also noted that the daily and monthly control account reconciliations had not been reviewed and signed off accordingly.</p> <p>Following the reinstatement of the former system administrator's access levels the creditors and debtors control account reconciliations are now being successfully reconciled and the review process was recommenced. A technical solution to this issue is being considered alongside Civica and in the meantime, the only user with access to this login and password is the finance manager, therefore the council is not open to unusual levels of risk.</p>
				<p>In our opinion the system of internal control over the general ledger and budget monitoring within the council has adequate controls to achieve its control objectives and these controls are generally operating effectively.</p>	

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Treasury Management	10	11	(1)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of the treasury management function within the authority has adequate controls to achieve its control objectives and is generally operating effectively in the areas reviewed.</p>	We raised four low priority recommendations which mainly relate to the further development of the Treasury Management Strategy through inclusion of related roles and responsibilities, reporting arrangements and clarity around the definition of long term investments. We have received suitable management responses to action the recommendations raised in this report.
Asset Management	5	0	5	-	The time allocated to this review will be used as part of a composite review of asset management in 2010/11.
Procurement	15	3	12	-	As at 31 March 2010 our internal audit input had involved undertaking preliminary planning and agreeing the terms of reference for this review. The fieldwork was completed during April and May 2010 and a report will be issued for management consideration in due course.

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Cash collection and banking	5	5.5	(0.5)	<p>Substantial Assurance</p> <p>In our opinion, from the information provided by managers and the testing carried out, the system of internal control over cash collection and banking within the council has adequate controls overall to achieve its control objectives, and these controls are operating effectively.</p>	<p>We found that five of the recommendations raised in our 2008/09 audit review have been fully implemented and three of these are currently in progress. Two of the recommendations partly implemented related to; the requirement to amend receipt book templates so that these enable the payment method (cash / cheque) to be annotated which is expected to be implemented when new receipt books are ordered; and rewording the Financial Procedure Rules to update and clarify the chief officer's responsibilities with postal remittances and management intend to action this at the next constitution update due in 2010. In respect of the one other recommendation partly implemented it was noted that the payment method (cash / cheque) has not been consistently recorded on receipt books. We acknowledge that the purchase of annotated receipt books requiring the payment method to be specified will help resolve this matter. However, in the meantime whilst the old receipt books are in use, efforts should be made to ensure staff consistently record the payment method.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Payroll	5	7.5	(2.5)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of the payroll system has adequate controls to achieve its control objectives, and these controls are operating effectively as intended.</p>	<p>We have identified two areas where potential improvements to the control framework could be made. Two exit interview forms out of a sample of 11 leavers during 2009/10 had not been signed by the employee and line manager prior to submission. This gives rise to the risk, although not significant, that the details on the exit interview form may not be accurate and complete. In addition, we also noted a low priority issue relating to two timesheets which had been processed and paid without authorisation from the line manager.</p>
Debtors	15	9.5	5.5	<p>Substantial Assurance</p> <p>In our opinion there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.</p>	<p>Adequate and effective systems and procedures have been formed and applied in relation to the key areas however our audit work identified areas where improvements can be made to enhance the controls in place. Where the payment of instalment is by cheque or over the phone and this is missed for one month a default automated letter is raised by the debtor's module and issued to the debtor requesting payment of the full amount. This raises potential reputational issues for the council in that, the debtor may feel the action was too harsh considering only one payment has been missed.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Creditors	15	11	4	<p>Substantial Assurance</p> <p>The design of the controls in place was generally adequate and the operation of the creditors system was found to be effective in the areas tested. The 'Authority Financials' access permissions allocated to staff in respect of the purchasing module do, however, put the achievement of particular objectives at risk.</p>	<p>Adequate and effective systems and procedures have been formed and applied in relation to some of the key areas however we noted areas where improvements to controls could be made.</p> <p>In particular, current self authorisation limits within the Authority financials purchasing module vary user to user from £0 to £15,000. The requisition limit represents the amount up to which a user can self authorise a requisition. In most cases, the users reviewed also had the ability to receipt an order. As invoices are now scanned to the creditors module and automatically matched to order and receipt details, in effect, there may be no separation of duties within the creditors system for purchases up to £15,000 in value. Our testing identified two such cases valued at £4,784 and £13,857.</p> <p>The 2008/09 recommendation that a duplicate payments report should be scheduled to be produced and reviewed on a regular basis so that potential duplicate transactions may be investigated, has not yet been implemented.</p>
Contingency for core systems work	5	5	0	-	Contingency used for additional work in relation to Treasury Management.

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focussed reviews</i>					
Project Management	15	15	0	<p>Full Assurance</p> <p>In our opinion the system of internal control over project management at the council has adequate controls to achieve its control objectives. These controls are operating effectively in the areas covered by this review.</p>	Each of the projects reviewed is governed and managed in a manner appropriate to its significance, complexity, and risk, based on the council's project management guidance.

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Focussed reviews (contd)					
Partnerships	20	20	0	<p>Limited Assurance</p> <p>In our opinion the system of internal control over the management of partnerships that the council is involved with has generally adequate controls to achieve its control objectives. These controls are generally operating effectively in the areas covered by this review, except that it is not clear that an effective risk assessment has been undertaken for some of the partnerships assessed as part of our sample audit testing.</p>	<p>Certain differences were noted between the practices and procedures applied across partnerships which were of a more strategic nature compared with some service specific partnerships. One example of this is the Lancashire Strategic Partnership (LSP) which is managed and controlled under a separately established structure and includes an Executive Board. Much of the best practice evidenced by the LSP should be applied across the more operational partnerships to ensure an appropriate level of consistency and effectiveness.</p> <p>The council has improved the way in which partnerships are managed through the recent establishment of an online partnership portal. The portal includes a register of partnerships, which enables the council to identify the types of partnership it is involved with and the resources invested, and links to information on partnership working. This guidance is subject to ongoing development and could be expanded in order to clarify requirements in certain areas and strengthen controls.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Focussed reviews (contd)					
Fraud Risks	20	19.5	0.5	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of anti fraud and corruption within the council has adequate controls to achieve its control objectives although some improvements could be made to further enhance these controls</p>	<p>We confirmed that, in the main, the authority is complying with the CIPFA best practice guidelines.</p> <p>Whilst we support the valuable work being undertaken in respect of benefit fraud, the council does not have the same practices in the detection of corporate fraud.</p> <p>We acknowledge the council's activities around awareness training and publicity to raise the profile of corporate fraud within the organisation and the wider community. We are however unable to establish a clear link between policy and operational work in respect of corporate fraud. This could be remedied through the development of a programme of work around existing fraud awareness which is then assessed and monitored on an annual basis.</p> <p>Whilst we acknowledge that risks facing each respective service area are identified and recorded as part of the business planning cycle, the development of a corporate fraud risk register would enable any future proactive fraud related work to be targeted at those high priority areas emerging from this exercise.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focussed reviews (contd)</i>					
Data Quality	15	0.5	14.5	-	Through discussions with management this review was scheduled to be undertaken in April 2010. Audit fieldwork in respect of this review is now complete and a draft report is due to be issued for management consideration.
				-	
National Fraud Initiative	15	13	2	-	<p>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. Savings of £25,133.62 have been identified mainly in relation to council tax single person discount, council tax rising 18s and housing benefit data matches.</p> <p>In February 2010 the Audit Commission reported results from the analysis of payroll and creditors data compared with data held at Companies House. Four data matches relating to council employees also holding a directorship of a company which was also an existing creditor of the council were highlighted. Internal audit followed up these results and confirmed that there was no procurement related issues or financial risk to the council.</p> <p>In addition, council tax and electoral roll data have been submitted to the Audit Commission in accordance with the specified deadlines. The results of this exercise were released in March 2010 and are currently under investigation.</p>

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focussed reviews (contd)</i>					
Contingency	8	8	0	-	Contingency used for additional sample testing in relation to the partnerships and project management reviews.
<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.
IT Controls	20	10	10	-	The IT service management review commenced in February 2010 and our fieldwork was in progress as at 31 March 2010. The results of our work in this area will be reported to members in due course.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward						
Debtors	0	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>		

Review area	Audit days			Assurance		Key issues/Comments
	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>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Cash collection and banking	0	2	(2)	✓	✓	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.		
National Non Domestic Rates (NDR)	0	0.5	(0.5)	✓	✓	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.
				In our opinion the system of internal control over the operation of the NDR system has adequate controls to fully achieve its control objectives. However, weaknesses have been identified in the current system for inspecting properties in receipt of empty property relief and we have made recommendations to strengthen the existing controls in this area.		

Review area	Audit days			Assurance		Key issues/Comments
	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>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2008/09 audits carried forward(contd)						
Data Quality	0	17.5	(17.5)	✓	✓	<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>

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 and this is currently being used as a basis for our follows up work.
Risk assessment and strategic planning	5	6	(1)	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	7	(1)	N/A	N/A	This time covers Audit and Accounts Committee preparation and attendance.
Audit and Accounts Committee reporting (annual and periodic progress)	10	10	0	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	16	(2)	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Other areas(contd)</i>						
Liaison with Audit Commission	3	3.5	(0.5)	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	6.5	(0.5)	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
Total Days	280	254	26			

1. Scope, responsibilities and assurance

Approach

- 1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- 1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 1.7 There have been no limitations to the scope of our work.

Limitations on the assurance that internal audit can provide

- 1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- 1.10 I have prepared this report solely for Rossendale Borough Council. As you are aware, this report forms part of a continuing dialogue between the internal audit service, the chief executive, Audit Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 1.11 I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

1. Audit assurance levels

- 1.1 The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the council's objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the council's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the council's objectives.