

ROSSENDALE BOROUGH COUNCIL

Internal Audit Service

Annual Audit Report 2006-07

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Appendix 1 – Scope, Responsibilities and Assurance

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 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Head of Internal Audit to provide a written report to those charged with governance, timed to support the statement on internal control, which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents our opinion based upon the work we have performed.
- 1.2 This report covers the period 1 April 2006 to 31 March 2007 and is timed to support the preparation of the statement on internal control for that year.

Acknowledgements

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

2. Assessment of internal controls

Overall opinion

- 2.1 On the basis of our programme of work for the year, the majority of systems of internal control were found to be adequate and effective, although in some cases, there may be scope for improvement.
- 2.2 Three of the main financial systems (payroll, debtors and creditors) were reviewed in autumn 2006. Initially a large number of weaknesses were identified which resulted in a significant number of audit recommendations.
- 2.3 However, since these reviews the Council has taken considerable steps towards implementation of the audit recommendations. Follow up reviews undertaken by ourselves in May 2007 of the issues identified in the payroll, debtors and creditors audit reports, recognised that the majority of recommendations have either been implemented, or at least addressed. As a result, major improvements have been made to the level of internal control within the above systems since our previous reviews.

Key issues and themes arising during the year

Core Financial Systems

- 2.4 Over recent financial years the Council has taken a number of steps to address its risks and it is acknowledged that a significant level of progress has been made. It is important now for the Council, given its reduced staff numbers to retain a suitable approach to managing its control environment.
- 2.5 Our work to date on the Council's core financial systems (payroll, debtors, creditors, cash and banking and council tax) raised the lack of a separation of duties as a recurring issue. However, we acknowledge that the Council has taken on additional members of staff within the Finance function to alleviate some of issues around separation of duties. In addition, as reported previously progress has been made in respect of payroll, debtors and creditors in terms of improving internal control since the initial reviews.
- 2.6 Given the Authority's size, it is not always practical to achieve an appropriate separation of duties, but it is important to ensure that there is appropriate monitoring of action taken by staff placed in this position. For example, financial exception reports should be produced and independently verified regularly.
- 2.7 The implementation of International Standards in Auditing (ISAs) saw an increased interest in internal audit's work undertaken on core financial systems by the Audit Commission (the Council's external auditors) during 2005/06 and again in 2006/07. The ISAs require external auditors to focus on the key financial systems relevant to the Authority's financial reporting and the standards make clear that this work is to include detailed substantive testing.
- 2.8 We worked closely with the Audit Commission in 2005/6 to structure our work to comply with their requirements and this approach has once again been adopted during 2006/07. Our change in approach to the core financial systems, which now provides an overview of each system, has provided the Audit Commission with the assurance that we have completed an appropriate level of systems documentation for each core financial system. The Audit Commission rely on our work to complete their ISA assessments.

Fraud/special investigations

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

Implications for the Statement on Internal Control

- 2.10 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 individual Heads of Service in their requirement to produce an Assurance Statement on Internal Controls, which in turn may form part of the Authority's overall Statement on Internal Control.

3. Internal audit work undertaken

Internal audit plan 2006/07

- 3.1 The two in-house permanent members of staff deployed by Rossendale Borough Council left their posts in September and December 2005 respectively and the provision of internal audit services was subsequently outsourced to Lancashire County Council's Audit Service.
- 3.2 On 7th 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 1st April 2006, with an option for two further years. This report covers the first full year of that agreement.
- 3.3 Work carried out during 2006/07 was in accordance with the Audit Plan presented and approved by Audit Committee on 15 June 2006. 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.
- 3.4 The planned days for delivering the 2006/07 internal audit plan amounted to 327 days. However, we have input a total of 344 days. The variance of 17 days related to time spent on finalising the key financial systems reviews carried forward from 2005/06.
- 3.5 This work has been undertaken with regular liaison with the Authority's external auditors to minimise any duplication.
- 3.6 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 2007/08 work.

Internal audit plan 2007/08

- 3.7 The plan for the coming year amounts to a total resource of 290 audit days (2006/07: 327 days). This reflects the approach agreed when Lancashire Audit Service was appointed as Rossendale Borough Council's internal auditors for the period 2006/07-2008/09.
- 3.8 The internal audit plan for 2007/08 is to be presented to the June 2007 meeting of the Audit Scrutiny Committee for approval. Meetings will be held with the Authority's Head of Financial Services on a regular basis during 2007/08 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 Scrutiny Committee on a regular basis throughout the year.

4 Scope, responsibilities and assurance

- 4.1 Details of the scope of our work, and management's and internal audit's responsibilities regarding systems of risk management, internal control are explained in Appendix 1. This also sets out the basis of our assessment and limitations on the assurance that we can provide.

Access to this report and responsibility to third parties

- 4.2 We 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 Authority. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 4.3 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

5 Summary of key findings

- 5.1 We have set out in Table 1 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.

- 5.2 As the plan progresses, we will distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 5.3 The table will indicate 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. For the three main financial systems which were reviewed again in May 2007 an indication of the position at the time of the original review, is highlighted in brackets.
- 5.4 A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given.
- 5.5 They reflect the findings at the time the work was carried out.

Summary of key findings

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Payroll	25	25	0	✓ (x)	✓ (x)	An initial review of the Payroll system found recurring problems mainly in respect of a lack of separation of duties and the completion of appropriate documentation for new starters and leavers. However, a follow up review undertaken in May 2007 revealed that all of the 11 recommendations made previously had either been implemented and appeared to be working well, or were in the process of being actioned at the time of the review.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Debtors – Raising of Debt	25	30	(5)	✓ (x)	✓ (x)	An initial review of the Debtors system found recurring problems mainly in respect of a lack of separation of duties in raising invoices, and the management of the Authority's debts. A follow up review undertaken in May 2007 revealed that the majority of the 23 recommendations had either been adopted and implemented, or considered with no further action required. However, there were still eight recommendations outstanding, the vast majority of which were in respect of debt management with only one medium risk/priority relating to the raising of invoices.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Debtors – Debt Management				x (x)	x (x)	<p>It is acknowledged that substantial efforts have been made to reduce the amount of debts held on the old radius system (from £278,000 to £48,000) since the previous review. All these old debts have now been transferred to the new Civica Financials Debtors system.</p> <p>However, there are still issues in managing current debts which amount to approximately £715,000. The following issues still need to be addressed:-</p> <ul style="list-style-type: none"> - the new Automated Recovery Management System (ARMS) is still not functioning satisfactorily because of software issues; - a Debt Management Policy has been drafted but has yet to be approved; - reports need to be developed which assist Exchequer Services to review the Authority's debt position on a regular basis; and - reports have not yet been developed of outstanding debts and bad/doubtful debtors which can be readily produced for managers in departments.
				<p>The system in place has inadequate controls to fully achieve its control objectives and was found not to be operating effectively.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Creditors	20	38	(18)	✓ (x)	✓ (x)	An initial review of the Creditors system identified problems in respect of a lack of separation of duties, weak access controls to the computer system and poor local records and procedures maintained by some budget holders. However, a follow up review undertaken in May 2007 revealed that the majority of the 40 recommendations made previously have been addressed, and where possible, implemented.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Council tax	25	16	9	✓	✓	This review was largely based at the offices of Capita who are now responsible for providing this function on behalf of the Authority. Access permissions to amend the Council Tax billing parameters not being appropriately restricted and system restrictions not being applied to prevent staff from writing off bad debts above the £50 limit permitted within the Capita write off procedures.
				The system in place has adequate controls to achieve its control objectives.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Cash & banking	20	22	(2)	x	x	<p>In the majority of service teams visited, there was no separation of duties between the collection, reconciliation and banking of income. Whilst this has been acknowledged by the managers of the service teams, practical difficulties due to staffing limitations prevent this from being addressed satisfactorily.</p> <p>In addition, significant issues were raised in respect of the collection of market rents which includes the lack of a formal charging policy, payments not being received on time, traders not holding a valid licence and the lack of formal procedures for the recovery of outstanding debts.</p> <p>An action plan was agreed towards the end of the financial year, to implement audit recommendations which will assist to improve internal control within the systems.</p> <p>Due to the fact this audit review was not completed until the year end, there was no time to undertake a follow-up review. However, issues identified during this review will be followed up during 2007/08.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General Ledger and Budget Monitoring	30	23	7	✓	✓	A small number of issues were highlighted in respect of the general ledger and budget monitoring system and these related to a high number of officers (11) having full access to the General Ledger system and specific concerns around the transfer of journals onto the General Ledger system.
Focussed reviews						
Best Value Performance Indicators	10	18	(8)	✓	✓	<p>We have highlighted issues in respect of the following Best Value Performance Indicators:</p> <ul style="list-style-type: none"> • BV183a and BV183b; • BV205; and • BV226 a-c. <p>In respect of BV205 the authority is required to score its services against a 'quality of planning services' checklist. Whilst our audit testing confirmed that the indicator had been correctly calculated there was insufficient evidence to support the calculated figure.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Corporate Governance	10	6	4	-	-	A full review was undertaken by ourselves and reported in 2005/6. Our input reflects on-going discussions during the year. Initial preparation for further work was carried out, but was postponed at the time as the Authority awaited its ethical governance review.
Human Resources – Absence Management	15	20	(5)	✓	x	Absence management reports are adequate and they are regular monitored. However, we do not have the assurance that teams throughout the Authority accurately report all absences to the HR team.
				The system in place has adequate controls to fully achieve its control objectives, however, the system was found not to be operating effectively.		
Risk Management	10	2	8	-	-	Time to date has been spent providing advice and assistance to the operational risk management group.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Single Status	10	0	10	-	-	Following discussions with the senior management team this audit was postponed.
Client side management arrangements in the commissioning environment	15	15	0	✓	✓	<p>The systems and procedures introduced in the Service Assurance Team were found to be adequate. The main issue arising from the review was in respect of the monitoring information produced by Capita. The hard copy reports produced by Capita were considered to be unsatisfactory and unacceptable in terms of the content.</p> <p>Since the review it is acknowledged that action has been taken to address this issue. As a matter of course Capita record all the relevant information on a monthly basis on the Authority's Performance Management Monitoring system (Covalent). It is therefore, proposed to do away with the monthly paper report which Capita presently submit and use Covalent to access the information in future.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative (NFI)	15	20	(5)	-	-	This work is ongoing. It covers the administration of the Audit Commission's NFI 2006 data matching exercise from the initial gathering and sharing of data for matching through to receipt back of that data and potential investigation of matters arising. Much of that investigation and subsequent reporting, both internally and to the Audit Commission, will be completed in 2007/08.
Contingency	8	3	5	-	-	Work on the internal audit of the Local Public Service Agreement (LPSA) certificate in order for Lancashire County Council to claim Performance Reward Grant (PRG) for all district councils.
Specialist areas						
Response to fraud / impropriety	10	0	10	-	-	No specific issues have arisen - acknowledging that the NFI noted above is a proactive response to fraud.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
IT Controls	15	14	1			<p>This time relates to follow up reviews in respect of IT controls. Follow up reviews of the following audits has been carried out:</p> <p>IT Security Review 2003/2004</p> <p>Backup and Disaster Recovery 2004/2005</p> <p>Internet Security and Email Management 2004/2005</p> <p>Website Management 2004/2005</p> <p>We have found that the controls established and under development to manage and maintain the Council's ICT infrastructure provide a significantly more effective level of control than was reported following the work carried out during 2003 to 2005.</p> <p>This time also relates to assistance with an investigation, specifically a forensic examination of a personal computer and assistance with the rewriting and formalisation of IT policies. In addition, this time also relates to general advice and assistance in respect of IT issues.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2005/06 audits carried forward						
Core financial systems	0	37	(37)			This time relates to the finalisation of work on the core financial systems. The assurance and key issues were included in the 2005/06 Annual Report.
Partnerships	0	2	(2)			The time relates to the finalisation of work on this area.
Other areas						
Follow up reviews	15	0	15	-	-	Work undertaken has been reported under the relevant review areas i.e. Core financial systems and IT controls.
Risk assessment and strategic planning	7	12	(5)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	4	8	(4)	-	-	This time covers O&S Committee preparation and attendance.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Central reporting (annual and periodic progress)	10	6	4	-	-	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	15	19	(4)	-	-	This time covers the monthly update meetings with the Head of Financial Services as well as meetings with the Executive Director of Resources and all Heads of Service.
Liaison with Audit Commission	3	3	0	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	10	5	5	-	-	This allocation covers ad hoc advice and assistance to the Authority. Time to date relates to advice regarding the Statement on Internal Control, and the Money Laundering Regulations.
Total Days	327	344	(17)			

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 Authority'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 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 No limitations have been placed on the scope or extent of the work we carried out during the year by the management or staff of the Resources Directorate.

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.