

Rossendale Borough Council

Internal Audit Service

Monitoring report for the period ended

31st July 2007

1 Purpose of this report

- 1.1 The Annual Audit Plan for 2007/08 was approved by the Audit Scrutiny Committee on 14 June 2007. The plan reflects the approach agreed last year, which appointed Lancashire Audit Service as Rossendale Borough Council's (RBC) internal auditors for the period 2006/7-2008/9. 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 2007 to 31 July 2007.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by Rossendale Borough Council's (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, a significant weakness has been identified in the design of the treasury management system arising from inadequate separation of duties, which does not give adequate protection either to the individual concerned or the Council and potentially presents an increased risk to the security of the funds invested. It is acknowledged that this risk has so far not materialised.

3 Internal audit work undertaken

Internal audit plan 2007/08

- 3.1 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 77 days have been spent in the four months since the start of the financial year to deliver the audit plan. This equates to 27% of the total audit activity of 290 days planned for the year.
- 3.2 However it should be noted that part of this time relates to the finalisation of 2006/07 audits.
- 3.3 In respect of the balance of the 2007/08 plan, work has been programmed over the remainder of the year to ensure that all the areas identified are covered.

Core financial systems

Treasury Management

- 3.4 In our opinion the system of internal control over the operation of Treasury Management within the Authority has inadequate controls to fully achieve its control objectives. However, whilst the system design may be inadequate, it has been operating effectively and the potential risk has so far not materialised.
- 3.5 The management of the Authority's investments is generally well controlled. However, there is one major weakness which could effectively lead to significant financial loss to the Authority in one transaction. This relates to the lack of separation of duties in respect of the BACS transfer system.

3.6 In addition, there are two other issues requiring attention which will further enhance the good procedures and practices already established in the management of the authority's finances. These relate to there not being, defined conditions for the Exchequer Manager to withdraw funds from the Royal Bank of Scotland bank account, and a formal and documented periodic review of the Council's banker's or the decision not to undertake such a review.

3.7 Management responses to each of our recommendations indicate that positive action has been or will be taken. Subsequent action has been taken by management to rectify the situation with respect to the separation of duties issue.

National Non-Domestic Rates (NNDR)

3.8 In July 2007 we completed a review of the key systems and procedures with respect to NNDR in operation by Capita Group Plc (Capita). We also reviewed the audit recommendations following the previous audit review in February 2006 of the systems and procedures operated by RBC prior to the transfer to Capita.

3.9 RBC entered into a strategic partnership agreement with Capita in September 2006, for the provision of revenues, benefits and general customer contact services. The partnership agreement resulted from a detailed evaluation exercise and supports RBC's commitment to improve its delivery of services for the benefit of the residents of the Borough of Rossendale.

3.10 The Agreement states that Capita shall have an ongoing obligation to continuously improve the delivery of the services having regard to economy, efficiency, effectiveness and customer satisfaction.

3.11 Capita have established a dedicated team, based in Blackburn, to manage the Rossendale Contract. The team consists of staff who have transferred from RBC to Capita in accordance with the Employment Regulations, including the Revenues Manager who has responsibility for overseeing the day-to-day management of the Revenues Section.

3.12 The report relating to our review of the NNDR system has been issued in draft for management response and will be reported to the committee upon finalisation. For this reason we have not highlighted our conclusions although these will be reported to Members upon receipt of responses from management.

3.13 The other financial systems included in this year's plan are programmed to be undertaken in the remaining three quarters of the financial year, and approximate dates for these audits have been agreed with Council management.

National Fraud Initiative (NFI)

3.14 The Audit Commission's data matching exercise runs every two years and is designed to help participating bodies (local government, central government, the NHS, etc) identify possible cases of fraud, and detect and correct any consequential under, or overpayments from the public purse. Rossendale Borough Council (RBC) is required under section 6 of the Audit Commission Act 1998 to participate in the NFI data matching exercise.

- 3.15 The core of NFI is the matching of data to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud. NFI exercises have helped to detect matters such as claimants' undeclared income and those who claim simultaneously from different authorities. All authorities, including RBC, are currently investigating the results of the latest exercise. The outcome of the investigations for Rossendale is due to be published in Spring 2008.
- 3.16 Following a successful pilot scheme, the Audit Commission has now decided to extend the mandatory data submissions to include Council Tax and the Electoral Register for every local authority. This exercise will involve matching Council Tax and Electoral Register data to other datasets scrutinizing areas such as, single person discounts, second home discounts, student disregards/ exemptions and tenancy issues. Any matching results will be followed up and investigated.
- 3.17 The details of all council tax payers will be provided to the Audit Commission for matching purposes during the week commencing 22nd October 2007. The results from this exercise will be provided in the early part of 2008.

Focussed reviews

- 3.18 In consultation with senior management, various focussed reviews (operational as well as financial) have been included in the plan to address the wider operational risks and controls of the Authority. We have commenced two of these reviews in July 2007.
- 3.19 The fieldwork in relation to the Data Quality and Corporate Governance reviews has been completed and it is intended that the draft reports for these reviews will be issued for management comment in early September 2007.

Resource input

- 3.20 The staff resource input for the four months to 31 July 2007 is as follows:

	Audit plan Days	Target %	Actual %
Head of Internal Audit	0	3	0
Principal Auditor	8	12-20	10
Senior Auditor (including IT)	18	25-35	24
Audit team members (including IT)	51	50-55	66
Total	77		100

- 3.21 There is currently an overall imbalance between the days spent between audit team members and the Principal and Senior Auditor. This split reflects the departure of the former Senior Auditor and the subsequent transfer of responsibilities on the internal audit contract to the newly appointed Senior Auditor and Principal Auditor.

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						
Payroll	5	0	5	-	-	Audit planned to be completed in Q4
Debtors	10	0	10	-	-	Audit planned to be completed in Q4
Creditors	10	0	10	-	-	Audit planned to be completed in Q3
Council tax	10	0	10	-	-	Audit planned to be completed in Q3
Housing Benefits	25	0	25	-	-	Internal Audit is currently liaising with the Rossendale Borough Council Service Assurance Team and Capita Business Services with a view to arranging the commencement of this audit. Terms of reference for this audit have been produced and put forward to Capita Business Services and the Service Assurance Team for approval, with a view to immediately commencing the audit.

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Non Domestic Rates (NNDR)	10	12	(2)			Internal Audit draft report in respect of this review has been issued for management comment.
Cash & banking	5	0	5	-	-	Audit planned to be completed in Q4
General ledger and Budgetary control	5	0	5	-	-	Audit planned to be completed in Q3
Treasury Management	5	5	0	x	✓	A significant weakness was identified in the design of the treasury management system relating to there not being adequate segregation of duties and authority limits to restrict access to the withdrawal of funds from the National Westminster bank account by the Exchequer Manager. The system of internal control has inadequate controls to fully achieve its control objectives. However, whilst the system design may be inadequate, it has been operating effectively and the potential risk has so far not materialised.
Asset Management	5	0	5	-	-	Terms of Reference relating to this review have been compiled and issued to management for review. It is intended that this audit will be commenced in early September 2007 and will include a follow-up of recommendations raised during our review of this area in April 2006.
Procurement	15	0	15	-	-	Audit planned to be completed in Quarter 3

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Contingency	5	0	5	-	-	
<i>Focussed reviews</i>						
Best Value Performance Indicators	15	7	8	-	-	Audit fieldwork in respect of this review is currently in progress and it is intended that a draft report on initial findings will be issued for management consideration in early September.
Corporate Governance	10	7	3	-	-	Audit fieldwork in respect of this review has been completed and a draft report is currently being put together for management consideration.
Human Resources – Recruitment and Selection	10	1	9	-	-	The terms of reference for this review have been produced and are in the process of being agreed with the Head of Human Resources. The audit will however be undertaken in Q3 at the request of Council management.
Risk Management	10	0	10	-	-	Audit planned to be completed in Q3
Client side management arrangements – Leisure Trust	15	1	14	-	-	The terms of reference for this review have been produced and are in the process of being agreed with the Head of Community and Partnership.

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	15	8	7	-	-	Following a successful pilot scheme, the Audit Commission have now decided to extend the mandatory data submissions to include Council Tax for every local authority. This exercise will involve matching Council Tax data to other datasets scrutinizing areas such as, single person discounts, second home discounts, student disregards/exemptions and tenancy issues. The details of all council tax payers will be provided to the Audit Commission for matching purposes during the week commencing 22 nd October 2007. The results from this exercise will be provided in the early part of 2008.
Anti Fraud Corruption Policy (inc Whistle-blowing)	10	0	10	-	-	This work is planned to be undertaken in Q3
Contingency	6	0	6	-	-	
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.
IT Controls	20	1	19	-	-	

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2006/07 audits carried forward						
Creditors	0	3.5	(3.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively		
Debtors – Raising of Debt	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Debtors – Debt Management	0	1.5	(1.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls to fully achieve its control objectives and was found not to be operating effectively		
Payroll	0	2	(2)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Council Tax	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its control objectives.		
Performance Management	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The controls and procedures in place with regards to performance management were found to be adequate, however testing did identify a number of areas where further improvements could be made		
Cash Collection and Banking	0	0.5	(0.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls which are operating ineffectively to achieve its control objectives		
Client Side Management Arrangements	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its controls objectives.		

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General Ledger and Budget Monitoring	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls, which are operating effectively, towards achievement of the control objectives.		
Other areas						
Follow up reviews	15	0	15	-	-	Audit planned to be completed in Q4
Risk assessment and strategic planning	5	6	(1)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	3	3	-	-	This time covers Audit Scrutiny Committee preparation and attendance.
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	14	6	8	-	-	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.

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 31st July 2007

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Liaison with Audit Commission	3	1	2	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	2	4	-	-	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	290	77	213			

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