

**Rossendale Borough Council**

**Internal Audit Service**

**Monitoring report for the period ended**

**31<sup>st</sup> October 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 August 2007 to 31 October 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 There has been no significant issues raised as a result of our reviews since the previous meeting of the Audit Committee in September 2007.

## **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 197 days have been spent in the seven months since the start of the financial year to deliver the audit plan. This equates to 68% of the total audit activity of 290 days planned for the year.
- 3.2 Part of this time (11 days) relates to the finalisation of 2006/07 audits that were ongoing as at 31<sup>st</sup> March 2007.
- 3.3 Since our previous report to the Audit Committee in September 2007, which covered the period ended 31 July 2007, a total of 120 days have been expended towards the completion of the 2007/08 Internal Audit Plan.
- 3.4 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***

#### ***NNDR***

- 3.5 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.
- 3.6 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.

- 3.7 The report relating to our review of the NNDR system has been issued in draft and discussed with Capita and the RBC Service Assurance Team. Formal management responses have been received from Capita although we are awaiting responses from relevant staff at RBC for a number of recommendations. A number of issues have been raised in respect of the NNDR system where management action is required to mitigate the risks arising.
- 3.8 In some instances, arrears at the 'post bailiff' stage of recovery action had not been reviewed since the transfer of services from RBC.
- 3.9 There are a number of issues with regard to access to the NNDR computer system. Certain users have been given a higher level of access than is considered necessary, which weakens the control in the system. In addition, a former employee was found to be still set up on the system.
- 3.10 Only one-off inspections of NNDR properties had been undertaken despite these properties being scheduled for June and July 2007.

#### *Asset Management*

- 3.11 A review of the key systems surrounding Asset Management and a follow up of recommendations raised in the previous audit reviews conducted in January 2005 and April 2006 was undertaken. A final report was issued in November in 2007 following receipt of management responses which indicate that positive action has been or will be taken.
- 3.12 The Property Services Manager has been in post approximately 12 months. Part of his duties on his appointment was to ensure the Asset Management Plan was produced in a format which met with Government Office North West (GONW) approval.
- 3.13 The Authority received a 'good' rating for its Asset Management Plan in May 2007. Following a recent re-organisation of responsibilities, Property Services is now part of the Head of Financial Services' portfolio.
- 3.14 An asset management database has been purchased and Property Services staff have been busy populating it with local information in respect of the Authority's land and buildings. An excel spreadsheet is also maintained by the Accountancy section of all financial information relating to the Council's assets. Once the database is fully operational the intention is to rely solely on the database to produce financial information for the Authority's accounts.
- 3.15 The system of internal control in respect of the management of the Authority's assets has adequate controls to fully achieve its control objectives. Both recommendations made in January 2005 have been addressed and actioned. However, there are still issues outstanding from the previous review in April 2006 which have not yet been addressed. No new recommendations have arisen during this current review. The recommendations raised in the 2006 report should therefore be given due priority and urgent attention with a view to implementing them as soon as feasibly possible.

- 3.16 The Financial Procedure Rules have not been updated in accordance with previous recommendations and the financial limits quoted in the document differ from those adhered to in practice. The asset register is only updated annually and formal channels of communication have not been established to inform the Accountancy Section of all new acquisitions which relate to the asset register. Whilst a disposal of assets policy has been produced for the disposal of property, there is no disposal of assets policy for the disposal of any other category of asset.

*Housing Benefits*

- 3.17 A review of Housing Benefits is currently in progress and fieldwork in respect of this audit was completed during September and October 2007. The completed file and associated report have been through our internal procedures and will be issued and discussed formally with both Capita and the RBC Service Assurance Team. For this reason we have not yet highlighted our conclusions although these will be reported to Members upon receipt of responses from management.
- 3.18 The other financial systems included in this year's plan are programmed to be undertaken in the remaining months of this financial year, and approximate dates for these audits have been agreed with Council management.

***National Fraud Initiative (NFI)***

- 3.19 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. RBC is required under section 6 of the Audit Commission Act 1998 to participate in the NFI data matching exercise.
- 3.20 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.
- 3.21 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.
- 3.22 The details of all council tax payers were provided to the Audit Commission for matching purposes during the week commencing 22<sup>nd</sup> October 2007. The results from this exercise will be provided in the early part of 2008.

***Focussed reviews***

- 3.23 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.

*Data Quality*

- 3.24 We have completed a review of the Authority's performance management processes, focussing on a sample of Best Value (BV) and Local Area Agreement (LAA) performance indicators. We concur with the approach adopted by Council management surrounding the selection of indicators for review which was based on an assessment of risk and the identification of high risk areas.
- 3.25 In our opinion the system of internal control over the operation of performance management within the Authority has adequate controls to fully achieve its control objectives. Procedures ensure that performance information is produced for the indicators reviewed and that this performance is monitored against targets.
- 3.26 There are, though, areas of the Authority where controls are not operating effectively. The key control objective not fully met relates to the calculation of accurate performance indicators (PI), as some errors were identified when verifying reported performance data to the supporting documentation held by the responsible officers. These errors are only minor, however, so the potential risk that decisions may be taken on the basis of inaccurate information has not materialised.
- 3.27 The final report relating to Data Quality was issued to RBC management in October 2007 following receipt of formal management responses.

*Corporate Governance*

- 3.28 A review by the Audit Commission in March 2007 concluded that RBC's corporate governance arrangements were 'very good' and that these reflected best practice in this area.
- 3.29 The Code of Corporate Governance for the Council was last updated in March 2007 and is effectively a working document which contains an action plan demonstrating compliance with best practice and instances where this is not fully achieved are highlighted for further work required and initials of the individual assigned to complete the work are noted.
- 3.30 RBC developed a Legal and Democratic Services section on the Council website where all relevant documentation and reports are stored and available for staff and residents to view. This is a new initiative and is considered to be over and above the requirements of best practice in this area.
- 3.31 In our opinion the system of internal control over the operation of the high level Corporate Governance systems has adequate controls to fully achieve its control objectives. We have however identified a number of areas, where changes in the requirements of the CIPFA/ SOLACE guidance for best practice in relation to Corporate Governance will need to be properly planned for, or areas where potential improvements to the existing arrangements could be made.
- 3.32 Management should determine the nature and substance of the Annual Governance Statement in order to comply with the revised guidance from CIPFA/ SOLACE issued in July 2007. Specific consideration needs to be given to the contents of the statement, the timescales within which this needs to be produced and the process of review prior to submission with the published accounts.

- 3.33 We were advised by management that the efficiencies required as part of the Gershon Process have been achieved by RBC. RBC has now implemented a more corporate wide Value for Money Strategy and Action Plan and therefore consideration should be given to adopting a more robust and frequent process of reviewing targets and achievements.
- 3.34 It was highlighted that the risk management element of the Partnership Evaluation and Register, which requires that risks to RBC surrounding the partnership arrangement are set out and proposals to mitigate and manage these risks are identified, for two out of a sample of five partnership arrangements the Partnership and Evaluation Register had been not fully completed.

*Leisure Trust*

- 3.35 Following a full options appraisal and 'SWOT' analysis in 2004 the Council established a Non Profit Distributing Organisation, Rossendale Leisure Trust ('Trust'), to manage the majority of RBC's leisure facilities and services. Leisure facilities and services operated by the Trust include the following:
- Haslingden Sports Centre;
  - Bacup Leisure Hall;
  - Ski Rossendale;
  - Swimming Pool in Haslingden; and
  - Arts Development and Healthy Lifestyles including sports development.
- 3.36 RBC granted the Trust a 25-year lease for each of the five leisure facilities and committed to three year funding agreements.
- 3.37 RBC appointed the former Head of Communities and Partnerships to monitor the Council's ongoing relationship with the Trust. Our review of the Leisure Trust considered the effectiveness of the controls and procedures in place towards the effective monitoring and management of the contractual relationship between RBC and the Leisure Trust.
- 3.38 Audit fieldwork in respect of this review has been completed and a draft report issued to RBC management. The findings will be subsequently reported to Members once management responses to the recommendations agreed are received.

**Resource input**

3.39 The staff resource input for the seven months to 31 October 2007 is as follows:

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	Audit plan Days	Target %	Actual %
Head of Internal Audit	2	3	1
Principal Auditor	15	12-20	8
Senior Auditor (including IT)	48	25-35	24
Audit team members (including IT)	132	50-55	67
Total	197		100

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**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	
<b>Core financial systems</b>						
Payroll	5	0	5	-	-	Audit planned to be completed in Q4
Debtors	10	0	10	-	-	Audit planned to be completed in Q4
Creditors	10	1	9	-	-	Audit fieldwork in respect of this review is currently in progress.
Council tax	10	0	10	-	-	Audit planned to be completed in Q3
Housing Benefits	25	25	0	-	-	Audit fieldwork in respect of this review has been completed and a draft report is to be issued for management response imminently.
National Non Domestic Rates (NNDR)	10	16	(6)	✓	✓	This review of NNDR has identified weaknesses in the effectiveness of the system of internal control relating to following up outstanding arrears and inspections of NNDR properties, and the design of the system in respect of access to the NNDR system where certain users have been given a higher level of access than is required for their specific roles.
				In our opinion the system of internal control over the operation of the NNDR systems has adequate controls to fully achieve its control objectives		
Cash & banking	5	0	5	-	-	Audit planned to be completed in Q4
General ledger and Budgetary control	5	1	4	-	-	Audit fieldwork in respect of this review is currently in progress.

**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

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
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. Subsequent action has been taken by management to rectify the situation with respect to the separation of duties issue.
Asset Management	5	7	(2)	✓	✓	The majority of recommendations arising from our reviews in January 2005 and April 2006 have been addressed. However, issues surrounding the financial procedure rules, updating the asset register, the process for identification of new acquisitions and the disposal of assets policy are yet to be actioned.
Procurement	15	0	15	-	-	Audit planned to be completed in Quarter 3
Contingency	5	0	5	-	-	

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Focussed reviews</b>						
Best Value Performance Indicators	21	22	(1)	✓	✓	The final report relating to this review was issued to RBC management in October 2007. The theme of our main findings surround the fact that data for some of the PIs reviewed has been incorrectly calculated. In each case, the differences identified are minor and represent an understating of performance. Action has already been taken or is recommended in this report to prevent calculation errors in future.
				In our opinion the system of internal control over the operation of performance management within the Authority has adequate controls to fully achieve its control objectives.		
Corporate Governance	10	13	(3)	✓	✓	We have identified a number of areas, where changes in the requirements of the CIPFA/ SOLACE guidance for best practice in relation to Corporate Governance will need to be properly planned for, or areas where potential improvements to the existing arrangements could be made. RBC need to consider requirement of the revised code to produce an Annual Governance Statement, establish systems to improve reporting around value for money and ensure risk management processes and correctly applied within partnerships.
				In our opinion the system of internal control over the operation of the high level Corporate Governance systems has adequate controls to fully achieve its control objectives		
Human Resources – Recruitment and Selection	10	11	(1)	-	-	Audit fieldwork in this area has been recently completed and a draft report will be issued to RBC for management response in due course.
Risk Management	10	0	10	-	-	Audit planned to be completed in Q3

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Client side management arrangements – Leisure Trust	15	17	(2)	-	-	Audit fieldwork in respect of this review has been completed and a draft report issued for management response in October 2007. A formal meeting between Internal Audit and respective RBC management was instigated in September 2007 where highlighted issues and proposed recommendations were agreed. A final report will be issued upon receipt of formal management responses.
National Fraud Initiative	15	18	(3)	-	-	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 were provided to the Audit Commission for matching purposes during the week commencing 22 <sup>nd</sup> 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.
<b>Specialist areas</b>						

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Response to fraud / impropriety	10	4	6	-	-	At the request of RBC management a review of the flexitime system at the One Stop Shop was undertaken. A number of operational issues were raised and brought to the attention of RBC management for action.
IT Controls	20	10	10	-	-	Audit fieldwork on this area is currently underway and progress is ongoing.
<b>2006/07 audits carried forward</b>						
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.		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
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.		
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		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
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.		
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.		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Other areas</b>						
Follow up reviews	15	0	15	-	-	Audit planned to be completed in Q4
Risk assessment and strategic planning	5	7	(2)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	6	0	-	-	This time covers Audit Scrutiny Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	7	3	-	-	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	10	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	2	1	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	4	2	-	-	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.
<b>Total Days</b>	<b>290</b>	<b>197</b>	<b>93</b>			

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