

Rossendale Borough Council

**Annual report of the Head of Internal Audit for the
year ended 31 March 2009**

Lancashire Audit Service

June 2009



ROSSENDALE BOROUGH COUNCIL

Internal Audit Service

Annual report for the year ended 31 March 2009

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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 2008 to 31 March 2009 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 A 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 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 and we can also confirm that good progress has been made in implementing recommendations raised in our previous years reviews, although action is still required in some areas.

Key issues and themes

Core Financial Systems

- 2.3 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 although we have raised four medium priority recommendations where the control environment could be further improved.
- 2.4 From our assessment of previous audit recommendations we also found that action is being taken towards actioning recommendations raised in the 2007/08 reviews.
- 2.5 Internal audit work was undertaken to provide assurance on treasury management arrangements and controls around investments, in light of the recent losses suffered by UK local authorities as a result of investments in Icelandic Banks. The management of the Authority's investments is generally well controlled however we noted that there was no restriction on the amount that can be invested with any one particular institution potentially resulting in significant financial loss to the Authority should one of these institutions face liquidation. We understand that, since the review, action has been taken to tighten controls in this area and limit the level of investment with a particular institution.

- 2.6 In our opinion the system of internal control over the operation of the housing benefit appeals process, in general, has adequate controls to achieve its control objectives. We did however highlight that reported performance figures could not be reconciled to internal records and the level of revisions processed was understated in figures reported to the Department for Work and Pensions (DWP). This gives rise to a reputational risk for the council whereby it may be under selling itself and performance may be inaccurately reported.
- 2.7 The system of internal control over asset management within the Authority has adequate controls overall to fully achieve its control objectives. The system is not, however, fully effective at present as there are areas where controls could be strengthened or enhanced. The council's asset management plan and other strategy or policy documents affecting the management, acquisition and disposal of assets had not been reviewed and updated since they were produced in 2007. Additionally, the council's asset database was not fully populated with asset information and performance improvement plans had not been developed for the asset portfolio. Incomplete asset records and performance improvement plans gives rise to the risk that assets may not be used to their full potential.
- 2.8 We worked closely with the Audit Commission in 2007/08 to structure our work to comply with their requirements and this approach has once again been adopted during 2008/09. 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 International Standards in Auditing (ISA) assessments.

Focussed Reviews

- 2.9 In our opinion the system of internal control over business continuity planning within the Authority has adequate controls overall to fully achieve its control objectives. Senior managers have identified the Council's key priorities and procedures have been put in place to develop and review Business Continuity Plans (BCPs) for each priority activity based on the Zurich Municipal (ZM) model.
- 2.10 We noted that the system was not, however, fully effective the time of our review. In particular, responsibility for business continuity throughout the Authority was unclear because a restructure of the organisation took place during the audit review and BCPs needed updating and consolidating to reflect the changes made. Additionally, at the time of our review no training exercises had been arranged to date to test plans and rectify any deficiencies. Although we understand that responsibility has since been assigned to service managers requiring them to undertake tests of their respective business continuity plans. There is a risk that if appropriate

testing of the established plans is not undertaken these may not operate in practice in a real life situation.

- 2.11 Our work during 2008/09 has involved following up the recommendations previously raised in our review of this area in 2007/08 and assessing the current position in respect of leisure arrangements.
- 2.12 Following the recent financial issues in respect of leisure arrangements in the borough it was agreed by members in February 2009 that additional funding would be provided to Rossendale Leisure Trust (RLT) to enable existing services to be maintained at the current level for one year. However, during this period, a review of leisure comprising consultation with the public would be undertaken, which would facilitate the development of a strategy around leisure and recreation provision in the borough.
- 2.13 A range of milestones and targets for 2009/10 have been agreed with RLT and a process for monitoring performance against these milestones and targets has also been established which involves periodic reporting to the Overview and Scrutiny Committee who have been tasked to oversee the activities of the leisure trust. In addition, a monthly meeting to discuss the financial performance of the leisure trust and any concerns in this area is held between RLT and council's Head of Finance.
- 2.14 Four of the recommendations raised in our previous review of this area have been implemented whilst the remaining four are in progress and management will be able to take more definitive action towards implementation of these recommendations upon the completion of the ongoing review of leisure arrangements.

Fraud/special investigations

- 2.15 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)

- 2.16 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.
- 2.17 In October 2008 data was submitted to the Audit Commission for matching purposes and the corresponding results from this data were obtained in February 2009. Council tax and electoral roll data was submitted in February 2009 and the results were received in April 2009.

The highlighted data matches are currently under investigation and results from this exercise will be reported in due course.

Implications for the Annual Governance Statement

- 2.18 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.
- 2.19 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 2008/09

- 3.1 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 third year of that agreement. Internal audit work during 2009/10 falls within the optional two years available to the council, as part of the contractual agreement, and this has been subsequently approved by Scheme of Delegation dated 1st June 2009.
- 3.2 Work carried out during 2008/09 was in accordance with the audit plan presented and approved by Audit and Accounts Committee on 5 June 2008. 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 264 audit days against planned input of 280 days. The variance of 16 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.
- 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 2009/10 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 Chartered Institute of Public Finance Accountants' 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 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 For example, the council has arrangements in place through contractual agreement with Burnley Borough Council for the provision of health and safety services and related advice and assistance. Internal audit undertook an assessment of the core service requirements which make

up the consultancy agreement to ensure these are being adhered to in all instances. The provision of services was considered to be adequate and operating effectively and the elements of the consultancy agreement were being met accordingly.

- 3.14 The internal audit service's audit plan for 2008/09 is available on the council's web-site under the Audit Committee meetings for 5 June 2008. The 2009/10 internal audit plan is to be submitted to the meeting of the Audit and Accounts Committee on 30 June 2009.
- 3.15 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

- 3.16 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.
- 3.17 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

- 3.18 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.
- 3.19 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.
- 3.20 The last full review of Lancashire Audit Service by the Audit Commission took place in 2007 and this report is available on the Lancashire County Council web-site (under the Audit Committee meeting for 28 June 2007). The Audit Commission also undertakes shorter reviews each year that are less formally reported, but in 2008 the Commission referred to the internal

audit service operated by Lancashire Audit Service, as part of its review of the council's use of resources, as "fully compliant with professional standards".

Internal audit plan 2009/10

- 3.21 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.
- 3.22 The internal audit plan for 2009/10 is to be presented to the meeting of the Audit and Accounts Committee on 30 June 2009 for approval. Meetings will be held with the Authority's Head of Financial Services on a regular basis during 2009/10 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.
- 3.23 The Lancashire Audit Service ICT plan for 2009/10 includes a review of the council's compliance with the Payment Card Industry Data Security Standard (PCI DSS). This piece of work was due to be completed in 2008/09, however, at the request of management this has now been deferred to the 2009/10 audit plan and will be undertaken in June 2009.

4 Summary of key findings

- 4.1 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.
- 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 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.
- 4.4 A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given. 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						
Housing Benefits Investigation Unit	15	15	0	✓	✓	The final audit report in respect of this review was issued in November 2008. Controls were generally operating effectively as intended, although in some instances the effectiveness of controls was reduced as a result of limited staffing resources.
				The controls in place are adequate and were generally operating effectively as intended.		
Housing Benefits appeals	10	8.5	1.5	✓	✓	The final audit report was issued in December 2008 and comprised three low and 3 medium priority recommendations. The three medium priority recommendations were in relation to findings which highlighted that reported performance figures could not be reconciled to internal records and a true and fair view of all revisions processed was not provided in reported figures.
				In our opinion the system of internal control over the operation of the appeals process, in general, has adequate controls to achieve its control objectives. However we did note deficiencies in the reporting of performance to the DWP, in particular PM17 which does not consider all revisions processed. Controls were generally operating effectively as intended.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Housing Benefits Performance Indicators - Interventions	5	6.5	(1.5)	✓	✓	The final audit report in respect of this review was issued in November 2008. This review focused on the processes and procedures surrounding the appropriate collation, input, internal monitoring and quality checking of data around NI 180 and NI 181. One low priority recommendation relating to internal performance targets has been raised and agreed by management.
				The controls in place are adequate and operating effectively as intended.		
National Non Domestic Rates (NNDR)	10	10.5	(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 for future relief/exemptions following the Chancellor's recent announcement 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 NNDR 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	
Core financial systems (contd)						
General ledger and Budgetary control	10	11	(1)	✓	✓	The final audit report was issued in February 2009 and contained 2 medium priority recommendations which require action but are not considered to be significant. Internal audit highlighted that control account reconciliations had not been independently reviewed and certain staff within the finance team with access restrictions to the general ledger did not require this level of access to undertake their duties.
				<p>In our opinion the system of internal control over the general ledger and budget monitoring within the Authority has adequate controls overall to fully achieve its control objectives. These controls were found to be operating effectively but there are areas where controls could be strengthened to ensure that the integrity of the accounting system is maintained and transactions are correctly processed.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Treasury Management	5	7	(2)	✓	✓	The final audit report was issued in February 2009. RBC does not currently hold any borrowing and we found that the management of the Authority's investments is generally well controlled. The Authority's Financial Strategy requires review to improve clarity around the definition for long term investments and RBC's policy on investments with any one institution.
				In our opinion the system of internal control over the operation of treasury management within RBC has generally adequate controls to achieve its objectives. There are however some weaknesses in the effectiveness of controls where further improvement is required.		
Asset Management	10	18.5	(8.5)	✓	x	The final audit report was issued in March 2009. We noted that the council's asset management plan and other strategy or policy documents affecting the management, acquisition and disposal of assets have not been reviewed and updated since they were produced in 2007. The council's asset database is not yet fully populated with asset information and performance improvement plans have not been developed for the asset portfolio. Incomplete asset records and performance improvement plans may give rise to the risk that assets may not be used to full potential.
				In our opinion the system of internal control over asset management within the Authority has adequate controls overall to fully achieve its control objectives. The system is not, however, fully effective at present as there are areas where controls could be strengthened or enhanced.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Procurement	5	4.5	0.5	✓	✓	Two new recommendations have been raised to strengthen the controls around the use of unapproved suppliers where there is selected contractor in place for the Council. These findings relate to exception reports, designed to identify supplies purchased from contractors other than those with whom the Council has an agreed contract, not being run and reviewed on a regular basis. Also, undertaking a periodic review of petty cash transactions to highlight the use of non-contracted suppliers for goods and services.
				<p>Our review of the three recommendations raised as part of the Procurement review earlier in 2008 has shown that good progress has been made in implementing these recommendations. In summary, the current status of the three recommendations raised is as follows:</p> <ul style="list-style-type: none"> • One (33.3%) has been fully implemented, • One (33.3%) has been partly implemented; and • One (33.3%) of these is no longer considered appropriate. 		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Cash collection and banking	10	20	(10)	-	-	<p>Audit fieldwork on this review is now complete and a draft report has been issued for management response.</p> <p>We adopted a different approach to this review from previous years which involved focusing our work on a wider range of payment methods as opposed to cash and cheques alone. This has resulted in the budget for this review being exceeded.</p>
Payroll	10	11	(1)	✓	✓	<p>The final audit report was issued in June 2009. Audit testing established that exit interview forms are not consistently submitted to Human Resources in advance of the leaving date. However, there were no financial implications identified as a result of the delays. We also noted that the calculation report is currently reviewed by the payroll officer, who is also responsible for processing payroll transactions, with no requirement for independent review. This increases the risk that unauthorised amendments to the payroll system may be made and go undetected. An independent review of the error report would strengthen controls and protect the integrity of payroll officer.</p>
				In our opinion the system of internal control over the operation of the payroll system has adequate controls to achieve its control objectives. However, some weaknesses have been identified 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	
Core financial systems (contd)						
Debtors	5	1	4	✓	✓	<p>A draft report was issued in May 2009 and following receipt of responses this report will be finalised. 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>
Creditors	5	1.5	3.5	✓	✓	<p>A draft report was issued in May 2009 and this will be finalised upon receipt of management responses. As reported in July 2008, a potential duplicate payments report is not produced and reviewed to enable these to be identified. Appropriate action has been taken in relation to five of the six recommendations agreed following the 2007/08 review. A further recommendation is made in this report to address the outstanding issue surrounding duplicate payments.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews</i>						
Use of Resources / KLOE	20	19.5	(0.5)	N/A	N/A	<p>Audit work involved undertaking a review of the use of resources self assessment for RBC and from our experience challenging the assumptions developed by RBC. RBC are currently in the middle of the assessment with the Audit Commission.</p> <p>A Fraud Risk Register has also been produced based on our work during 2008/09 and this will be used to inform further work in the area.</p>
Data Quality	20	3	17	-	-	<p>The terms of reference for this review have been agreed with management and audit fieldwork is in progress. A draft report will be issued for management consideration upon completion of our fieldwork.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews (contd)</i>						
Planning	15	18.5	(3.5)	✓	✓	Testing established that not all Development Control staff are aware of the Council's Financial Procedure Rules or how to access these. Development Control does not always keep an audit trail of planning fee payments received by cheque and postal order. We also noted that an audit trail that income has been banked in full is not retained by Development Control.
				<p>In our opinion the system of internal control over the operation of the Development Control provides adequate controls to achieve its control objectives. Internal controls were found to be operating effectively but there are areas where controls could be strengthened to ensure the integrity of the planning system.</p>		
Health and Safety	10	12.5	(2.5)	✓	✓	This audit report was finalised and issued in October 2008. We noted that the core service requirements which make up the consultancy agreement are being adhered to. Reports from the health and safety audits performed have been issued to all Service Unit Managers informing them of the recommendations made.
				<p>The controls in place are adequate and operating effectively as intended.</p>		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Focussed reviews (contd)						
Client side management arrangements – Leisure Trust	5	1	4	-	-	<p>Members have agreed to provide additional funding to Rossendale Leisure Trust (RLT) to enable existing services to be maintained at the current level for one year. A review of leisure comprising consultation with the public is currently being undertaken, which will facilitate the development of a strategy around leisure and recreation provision in the borough.</p> <p>A range of milestones and targets for 2009/10 have been agreed with RLT and responsibility for monitoring performance against these milestones and targets has been assigned to the Overview and Scrutiny Committee.</p> <p>Four recommendations from our review of this area in 2007/08 are in progress. Management will be in a better position to implement these recommendations upon the completion of the ongoing leisure review.</p>
National Fraud Initiative	15	15.5	(0.5)	N/A	N/A	See agenda item D3 containing an update report on the National Fraud Initiative.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews (contd)</i>						
Business Continuity Planning	15	17.5	(2.5)	✓	✓	A final report was issued in January 2009. Four medium and two low priority recommendations were raised as part of this review. The Authority's restructure of the organisation has resulted in changes affecting the ownership and maintenance of some BCPs. Responsibility for some key areas may also have altered. All BCPs need, therefore, to be reviewed to ensure that responsibility for each "Mission Critical Activity" (MCA) is correctly identified. Each BCP states that the plan should be tested at least annually with the results reported and fed into the review of the plan. Most BCPs were developed in 2006/07, but there has not as yet been a documented exercise to test the plans. There have been two "real" incidents affecting the Council's activities, but managers did not activate their plans on these occasions or record the incidents as tests.
Contingency	6	0	6	N/A	N/A	
<i>Specialist areas</i>						
Response to fraud/impropriety	10	0	10	N/A	N/A	We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Specialist areas (contd)						
IT Controls – Payment Card Industry Data Security Standard	15	1.5	13.5	-	-	At the request of RBC management this review has been deferred and is planned to be undertaken in June 2009.
2007/08 audits carried forward						
Anti-fraud and Corruption Policy	0	5.5	(5.5)	✓	✓	A final audit report has been issued in respect of this review.
				The controls in place are generally adequate and in the main, operating effectively as intended.		
Cash and Banking	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended.		
Council Tax	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
Debtors	0	6.5	(6.5)	✓	✓	A final report has been issued in September 2008 following receipt of management responses. Of the eight recommendations agreed at the previous audit, three have been fully implemented, one is considered to be ongoing and four remain outstanding. From discussions with key personnel and testing in the appropriate areas, five new recommendations have been raised.
				The controls in place are generally adequate and operating effectively as intended.		
Follow-up reviews	0	5	(5)	✓	✓	A final report was issued in September 2008. Appropriate action was found to have been taken or was ongoing to implement recommendations agreed in previous audit reviews.
				The controls in place are adequate and operating effectively as intended.		

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
IT Controls - NNDR	0	0	0	✓	✓	<p>This report was finalised in June 2009 based on discussions between internal audit and respective RBC management.</p> <p>It is apparent that considerable effort has been exercised to produce effective contractual arrangements with Capita for the provision of the Revenues and Benefits service and ensure that all key risks to the provision of that service are mitigated under the contract conditions. The majority of our recommendations centre on management at the council continuing to ensure that those conditions are, and continue to be, achieved.</p> <p>Although a number of weaknesses were identified in the security of the database that supports the application, these should be easily rectified through liaison between the council and Capita. The application itself contains the controls necessary to maintain a secure operating environment for effective service delivery if these are correctly applied.</p>

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
Payroll	0	5.5	(5.5)	✓	✓	A final report has been issued. All of the 11 recommendations made at the previous review in September 2007 have now been implemented or are being adequately addressed. There is still a requirement to ensure the Disaster Recovery Plan is fully tested.
				The controls in place are adequate and operating effectively as intended.		
Procurement	0	3	(3)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended.		
Risk Management	0	2.5	(2.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and generally operating effectively as intended.		
Other areas						
Follow up reviews	5	2	3	-	-	Fieldwork in respect of this review is in progress, and the results will be reported to members in due course.
Risk assessment and strategic planning	5	4	1	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas (contd)						
Committee and other meetings	6	5	1	N/A	N/A	This time covers Audit Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	8	2	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	9	5	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.
Liaison with Audit Commission	3	1	2	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	2	4	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
Total Days	280	264	16			

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.