

**Rossendale Borough Council**

**Internal Audit Service**

**Monitoring report for the period ended**

**28 February 2010**





## **1 Purpose of this report**

- 1.1 The Annual Audit Plan for 2009/10 was approved by the Audit Committee on 30 June 2009. This report reflects the approach agreed when Lancashire Audit Service was appointed as the Council's internal auditors. Our approach essentially follows the same principles that we have established over the last year. 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 2009 to 28 February 2010.

### ***Acknowledgements***

- 1.3 We are grateful for the assistance that has been provided to us by 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, no significant weaknesses have been identified that would have a material impact upon the Council's internal control environment.

## **3 Internal audit work undertaken**

### ***Internal audit plan 2009/10***

- 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 202 days have been spent in the eleven months since the start of the financial year to deliver the audit plan. This equates to 72% of the total audit activity of 280 days planned for the year.
- 3.2 However it should be noted, as indicated above, that part of this time relates to the finalisation of 2008/09 audits.
- 3.3 Since the previous meeting of the Audit and Accounts Committee on 3 December 2009 we have finalised three reports, which relate to our work around treasury management, general ledger and budget monitoring, and council tax. The key findings from these reviews are noted below:
- 3.4 In our opinion the system of internal control over the operation of the treasury management function within the authority has adequate controls to achieve its control objectives and is generally operating effectively in the areas reviewed.
- 3.5 We confirmed that the regulatory requirements of the Prudential Code and CIPFA Code of Practice for Treasury Management in Public Services have been appropriately reflected within the Treasury Management Strategy. Good practices have been maintained in relation to cash flow monitoring for both daily cash flow and cash flow forecasting procedures, monitoring and reporting of treasury management performance and the security of data and funds. We raised four low priority recommendations which mainly relate to the further development of the Treasury Management Strategy through inclusion of related roles and responsibilities, reporting arrangements and clarity around the definition of long term investments. We have

received suitable management responses to action the recommendations raised in this report.

- 3.6 We also finalised our review of general ledger and budget monitoring in January 2010. In our opinion the system of internal control over the general ledger and budget monitoring within the council has adequate controls to achieve its control objectives and these controls are generally operating effectively. Our audit raised, one medium and two low priority recommendations, and we have received satisfactory management responses towards the implementation of the recommendations highlighted.
- 3.7 Following removal of the former system administrator's user access the finance team were unable to generate certain system interface reports, and therefore the variances arising out of the daily creditors and debtors control account reconciliations could not be investigated. We also noted that the daily and monthly control account reconciliations had not been reviewed and signed off accordingly although we appreciate that this was a temporary issue arising out of the removal of the former system administrator's user access. Following reinstatement of the former system administrator's access levels the creditors and debtors control account reconciliations are now being successfully reconciled and the review process has been recommenced.
- 3.8 In our opinion, with the exception of the write off authorisation process, the system of internal control over the operation of the council tax system has adequate controls to achieve its control objectives and these controls are generally operating effectively as intended.
- 3.9 We confirmed that the control surrounding write off transactions on the Northgate system are inadequate, as it is possible for any member of the team to perform the write transaction without a system authorisation level being required. Whilst there is a risk that unauthorised write offs may be processed there is no evidence in this review that this risk has materialised. The write off transactions sample tested in this audit have been appropriately authorised and processed in accordance with established guidelines. An additional sample checking process is to be established by the Service Assurance Team by April 2010 to mitigate the risk highlighted above.
- 3.10 In respect of the balance of the 2009/10 plan, work has been programmed over the remainder of the year to ensure that the priority areas identified are covered. As at February 2010:
- Four reports had been agreed and issued in final;
  - Three reports had been issued in draft awaiting management responses; and
  - In respect of five other reviews the fieldwork was in progress.
- 3.11 Outcomes arising from our work will be reported upon finalisation.

**Resource input**

3.12 The staff resource input for the eleven months to 28 February 2010 is as follows:

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	Audit plan Days	Target %	Actual %
Head of Internal Audit	0	3	0
Principal Auditor	20	12-20	10
Senior Auditor (including IT)	61	25-35	30
Audit team members (including IT)	121	50-55	60
Total	202		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>						
Housing Benefit Overpayments	8	10	(2)	✓	✓	The final audit report in respect of this review was issued in October 2009. We noted deficiencies in the reporting of performance, and overpayment coding processes which will require management attention. The criteria for coding overpayments as fraud has not been consistently applied resulting in failure to recover the maximum amount per week from ongoing benefit where this is applicable. Current quality checking procedures do not include checking of overpayments for accuracy and completeness. We noted two instances where there has been no action for more than 12 months on cases submitted for County Court action.
				In our opinion the system of internal control over the operation of the overpayments system has generally adequate controls to achieve its control objectives. Controls were generally operating effectively as intended		

**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	
<b>Core financial systems (contd)</b>						
Council Tax	10	17	(7)	✓	✓	We confirmed that the control surrounding write off transactions on the Northgate system are inadequate, as it is possible for any member of the team to perform the write transaction without a system authorisation level being required. Whilst there is a risk that unauthorised write offs may be processed there is no evidence in this review that this risk has materialised. The write off transactions sample tested in this audit have been appropriately authorised and processed in accordance with established guidelines. An additional sample checking process is to be established by the Service Assurance Team by April 2010 to mitigate this risk.
				In our opinion, with the exception of the write off authorisation process, the system of internal control over the operation of the council tax system has adequate controls to achieve its control objectives and these controls are generally operating effectively as intended.		
Housing Benefits appeals	5	3	2	-	-	This review involving a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls. Whilst the fieldwork is now complete the draft report is due to be issued imminently.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Core financial systems (contd)</b>						
National Non Domestic Rates (NNDR)	5	0	5	-	-	This review is scheduled to be undertaken in March 2010.
General ledger and budgetary control	5	7.5	(2.5)	✓	✓	<p>Following removal of the former system administrator's user access the finance team were unable to generate certain system interface reports, and therefore the variances arising out of the daily creditors and debtors control account reconciliations could not be investigated. We also noted that the daily and monthly control account reconciliations had not been reviewed and signed off accordingly.</p> <p>Following the reinstatement of the former system administrator's access levels the creditors and debtors control account reconciliations are now being successfully reconciled and the review process was recommenced. A technical solution to this issue is being considered alongside Civica and in the meantime, the only user with access to this login and password is the finance manager, therefore the council is not open to unusual levels of risk.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Core financial systems (contd)</b>						
Treasury Management	10	11	(1)	✓	✓	We raised four low priority recommendations which mainly relate to the further development of the Treasury Management Strategy through inclusion of related roles and responsibilities, reporting arrangements and clarity around the definition of long term investments. We have received suitable management responses to action the recommendations raised in this report.
Asset Management	5	0	5	-	-	Audit scheduled to be undertaken in March 2010.
Procurement	15	2	13	-	-	This fieldwork in respect of this audit is in progress and is due to be completed in March 2010.
Cash collection and banking	5	5.5	(0.5)	-	-	A draft relating to this review was issued in February 2010. This report will be finalised upon receipt of management responses and subsequently reported to members.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Core financial systems (contd)</b>						
Payroll	5	7.5	(2.5)	-	-	A draft relating to this review was issued in January 2010. This report will be finalised upon receipt of management responses and subsequently reported to members.
Debtors	15	0	15	-	-	Audit scheduled to be undertaken in March 2010.
Creditors	15	0	15	-	-	Audit scheduled to be undertaken in March 2010.
Contingency for core systems work	5	5	0			Contingency used for additional work in relation to Treasury Management.
<b>Focussed reviews</b>						
Project Management	15	15	0	-	-	Audit fieldwork in respect of this review is nearing completion. A draft report will be issued for management consideration upon completion of our fieldwork.
Partnerships	20	20	0	-	-	We have discussed the results of our review and the draft report with council management and are currently in the process of finalising this report. The results of this review will be issued to members in due course.

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<b>Focussed reviews (contd)</b>						
Fraud Risks	20	15	5	-	-	Audit fieldwork in respect of this review is now complete and the draft report is due to be issued for management consideration imminently.
Data Quality	15	0.5	14.5			Audit scheduled to be undertaken in March 2010.
National Fraud Initiative	15	3.5	11.5	-	-	Time spent to date by NFI key contact in liaising with Authority contacts regarding the investigation and follow up of data matching matches and results. Savings of £25,133.62 have so far been identified mainly in relation to council tax single person discount, council tax rising 18's and housing benefit data matches.  In addition, council tax and electoral roll data have submitted to the Audit Commission in accordance with the specified deadlines. The results of this exercise are expected to be released in March 2010.
Contingency	8	6	2	-	-	Contingency used for additional work in relation to Partnerships review.
<b>Specialist areas</b>						
Response to fraud/ impropriety	10	0	10	-	-	We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.

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<b>Specialist areas (cond)</b>						
IT Controls	20	4	16	-	-	The IT service management review commenced in February 2010. The results of our work in this area will be reported to members in due course.
<b>2008/09 audits carried forward</b>						
Debtors	0	5	(5)	✓	✓	<p>The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2008/09.</p> <p>The recommendations raised in this report aim to reduce the risks of bad debts arising and ensure that debt recovery resources are not tied up, thereby potentially improving the council's debt management performance.</p> <p>In 2007/08 and 2008/09 debts were only considered for write off at year end. A more regular review of the options available for older debts is advisable to prevent debts that cannot be recovered from hindering the debt recovery system and to bring procedures in line with the council's Sundry Debt Management Policy.</p>
				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		

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<b>2008/09 audits carried forward(contd)</b>						
Creditors	0	6	(6)	✓	✓	<p>The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2008/09.</p> <p>The time taken to pay creditor invoices is closely monitored and controls to help maintain and improve performance were found to be operating effectively.</p> <p>The "intelligent scanning" of invoices has been introduced since the last internal audit review of the creditors system in order to improve the efficiency of the payments process. Testing of creditor payments confirmed that the controls affected by this development are operating effectively.</p> <p>A potential duplicate payments report is not produced and reviewed to enable any duplicated transactions to be identified and addressed.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>2008/09 audits carried forward(contd)</b>						
Cash collection and banking	0	2	(2)	✓	✓	The final report relating to this review was issued in July 2009. Whilst there were no significant findings, areas were identified where controls could be enhanced to further reduce the risks faced by the council. The eight recommendations in this report are all of low risk/priority.
				In our opinion the system of internal control over cash collection and banking within the council has adequate controls overall to fully achieve its control objectives and these controls are operating effectively.		
National Non Domestic Rates (NNDR)	0	0.5	(0.5)	✓	✓	The Final audit report in respect of this review was issued in June 2009. Following changes in legislation around empty property rates we consider that it would be more efficient to specifically target empty properties that are in receipt of an exemption. We also recommended that in view of the introduction of a three month exemption period, the frequency of inspections should be increased. The implementation dates for the recommendations have been deferred to March 2010, to await the Government's decision over future relief/exemptions and possibility that all properties with a rateable value of £15,000 or less would be exempt from rates for 2009/10. Currently 400 properties fall within this category.
				In our opinion the system of internal control over the operation of the 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.		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>2008/09 audits carried forward(contd)</b>						
Client side management arrangements – Leisure Trust	0	4.5	(4.5)	✓	✓	<p>Formal notification in terms of the role and specific responsibilities for the monitoring of targets and milestones set by the Leisure Trust within its corporate plan has not been assigned. This role is important to ensure key milestones are met and therefore should be more clearly defined and communicated.</p> <p>In addition, our follow up work in respect of recommendations raised in our review of this area in 2007/08 found that, of the eight recommendations raised, four have been fully implemented whilst the remaining four recommendations are in progress and partly implemented.</p> <p>We acknowledge that the current arrangements are an interim measure and the ongoing review of leisure will impact upon the client side management arrangements and is likely to result in changes in the governance and monitoring around the partnership. The implementation of the remaining recommendations is, to some extent, dependent upon the results from the leisure review and therefore further progress will be made following completion of the review.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>2008/09 audits carried forward(contd)</b>						
Data Quality	0	17.5	(17.5)	✓	✓	<p>There are areas where controls could be strengthened or enhanced to ensure that resources are used efficiently and effectively to improve the performance of services and reduce the risks faced in this area by the council. In particular, Legal Services does not currently have any performance measures or other effective means of:</p> <ul style="list-style-type: none"> <li>• evidencing the achievements of the service;</li> <li>• demonstrating the quality, cost effectiveness and efficiency of the service; or</li> <li>• identifying where improvements to service delivery could or should be made.</li> </ul> <p>The Acting Assistant Head of Legal Services is exploring how performance can be measured and the action plan with the 2009/10 business plan includes a target for achieving LEXCEL accreditation.</p> <p>Errors were identified on the spreadsheet used to collate municipal and household waste data and calculate the recycling and composting performance indicators. These errors mean that the reported quarterly performance figures for 2008/09 have been understated since quarter 1.</p>

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Other areas</b>						
Follow up reviews	5	0	5	-	-	A schedule containing recommendations raised during 2008/09 audits has been produced and this is currently being used as a basis for our follows ups work.
Risk assessment and strategic planning	5	3	2	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	7	(1)	N/A	N/A	This time covers Audit Committee preparation and attendance.
Audit and Accounts Committee reporting (annual and periodic progress)	10	8.5	1.5	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	8.5	5.5	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Other areas(contd)</b>						
Liaison with Audit Commission	3	2	1	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	5	1	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
<b>Total Days</b>	<b>280</b>	<b>202</b>	<b>78</b>			

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