

Rossendale Borough Council

Internal Audit Service

**Monitoring report
for the period ended 31 August 2010**



1 Purpose of this report

- 1.1 The Annual Audit Plan for 2010/11 was approved by the Audit Committee on 27 June 2010. The plan reflects the approach agreed when Lancashire Audit Service was appointed as the Council's internal auditors. 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 2010 to 31 August 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 Several reviews that were ongoing as at 31 March 2010 have subsequently been finalised, relating to data quality, housing benefits appeals process, National Non Domestic Rates (NNDR) and procurement. In respect of our review of IT service management a draft report has been issued for management consideration and the outcome of this review will be reported to Members upon finalisation of the report.

Data quality

- 3.2 The arrangements relating to data quality and performance management were found to be adequate and generally effective and hence we were able to provide **substantial assurance** over the controls in place. Further improvements were identified to enhance existing controls in the following areas:
- 3.3 The guidance relating to NI185 requires the inclusion of usage data where the delivery of the relevant functions of the local authority result in CO₂ emissions (either directly or indirectly) even if the services are being provided by an external body. Whilst we acknowledge that the council has limited control over energy consumption by Capita Business Services (Capita), based on the above guidance, Capita energy usage data should be included within the reported figures for the council.
- 3.4 Our substantive audit testing over the accuracy of the submission data and reporting on Covalent confirmed that figures agree to supporting documentation however a number of anomalies were highlighted. These related to there being no sub totals on each supporting spreadsheet which hinders reconciliation of reported figures and reasons for inclusion or omission of usage data on the supporting spreadsheets are not documented which could lead to potential miscalculations. We acknowledge that spreadsheet records were amended to rectify the above anomalies at the time of our review.
- 3.5 LI 218a relates to the timely investigation of abandoned vehicle reports, which are logged and tracked using the Flare system. The quality of information recorded on

Flare needs to be more consistent to ensure the date of response is recorded for all abandoned vehicle reports, including those where vehicles are assessed to be not abandoned. This would provide assurance regarding the accuracy of performance calculated and reported for LI 218a.

Housing benefit appeals process

- 3.6 This review involved a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls. Of the six recommendations previously raised, four had been implemented and two of these required further action. The key point arising from this review related to the fact that performance figures had not been reported to the Department for Work and Pensions (DWP) since March 2009 which gives rise to a potential reputational risk for the council. We acknowledge however that there is no financial risk to the council. The work undertaken enables us to provide **substantial assurance** over the controls in place around the housing benefit appeals system.

NNDR

- 3.7 In our opinion, from the information provided by managers and the audit testing carried out, the system of internal control over NNDR within the council has adequate controls overall to achieve its control objectives, and these controls are operating effectively. Our audit testing confirmed that the three recommendations raised in our previous report have been fully implemented. The audit work we have undertaken allows us to provide **full assurance** over the controls in place for the council's NNDR system.

Procurement

- 3.8 In our opinion there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. The audit work we have undertaken allows us to provide **substantial assurance** over the controls in place for the council's procurement system. There is, however, a risk that inadequate monitoring of supplier expenditure may lead to non compliance with the council's contract procedure rules or statutory limits and subsequent legal action may be taken against the council. It was agreed with management that an expenditure report, split by supplier, will be reviewed periodically to ensure compliance with council procedures and Official Journal of the European Union (OJEU) legislation where appropriate.

Internal audit plan 2010/11

- 3.9 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 156 days have been spent in the five months since the start of the financial year to deliver the audit plan. This equates to 56% of the total audit activity of 280 days planned for the year.
- 3.10 However it should be noted, as indicated above, that part of this time relates to the finalisation of 2009/10 audits.

- 3.11 In respect of the balance of the 2010/11 plan, work has been programmed over the remainder of the year to ensure the areas identified are covered. As at 31 August 2010, six audit reviews were ongoing at varying states of completion. These relate to:
- Waste and recycling;
 - Licensing;
 - Asset management;
 - General ledger and budget monitoring;
 - Treasury management; and
 - National Fraud Initiative (NFI) work.
- 3.12 Outcomes arising from our work will be reported upon finalisation.

4 Summary of findings

Overall summary and assurance provided

- 4.1 The table on the following pages sets out a brief summary of each review undertaken during the period and the areas to be covered in the remainder of the year. This indicates the planned and actual days we have spent on each area, 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 provide an overall level of assurance for each audit assignment and further, distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 4.3 The level of assurance provided on each assignment can be at one of four levels; full, substantial, limited and no assurance. Definitions of the assurance levels used are attached as Appendix 1.
- 4.4 The table will indicate 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.
- 4.5 **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.
- 4.6 **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.

Summary of our findings and assurance

Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems					
Asset Management	20	21	(1)	-	Audit fieldwork in respect of this review is now complete and a draft report is due to be issued for management consideration imminently.
General ledger and budgetary control	10	5	5	-	Audit fieldwork in respect of this review was split into two phases; transaction based testing was completed in September 2010 whilst system related audit testing has been deferred until after the transfer of the council's accounting system onto a new server. This testing will therefore be completed in October 2010 following which a draft report will be issued for management consideration.
Treasury Management	5	1	4	-	Audit fieldwork in respect of this review is scheduled for completion in September 2010. A draft report will be issued in due course for management consideration.
Housing Benefits	15	0	15	-	We have agreed with Capita to undertake this piece of work in Quarter 3 of 2010/11.
Council Tax	8	0	8	-	We have agreed with Capita to undertake this piece of work in Quarter 3 of 2010/11.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Creditors	5	0	5	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.
Debtors	5	0	5	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.
Payroll	10	0	10	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.
Procurement	5	0	5	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.
NNDR	10	0	10	-	We have agreed with Capita to undertake this piece of work in Quarter 4 of 2010/11.
Cash Collection and Banking	10	0.5	9.5	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.
Contingency for core systems work	5	0	5	-	Allowance for unforeseen changes to the planned core financial systems work.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focussed reviews</i>					
Licensing	15	12	3	-	Audit fieldwork in respect of this review is nearing completion. A draft report will be issued for management consideration in due course.
Waste and Recycling	20	10	10	-	Audit fieldwork in respect of this review is in progress and will be completed in October 2010. A draft report will be issued upon completion of our fieldwork for management consideration.
Health Inequalities	20	1	19	-	At the request of management this review has been deferred/cancelled. The available time will initially be transferred to contingency and available for use on other priority areas if considered appropriate.
Data Quality	15	0	15	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11.

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	Planned	Actual	Variation		
Focussed reviews (contd)					
National Fraud Initiative	15	5.5	9.5	-	<p>Time spent to date by NFI key contact in liaising with Authority contacts regarding the investigation and follow up of results relating to Council Tax Single Person Discount and Council Tax Rising 18s matches released in March 2010.</p> <p>In addition, the NFI key contact has been involved in the process for issuing fair processing notices and arranging the submission of 2010/11 data to the Audit Commission for data matching purposes. The 2010/11 data submission relates to the generally category of matches including housing benefits, payroll, creditors, market trader licences and taxi driver licences. It is a requirement under the Data Protection 1998 to issue fair processing notices to individuals to inform them that their personal data will be used for data matching purposes.</p>
Contingency	8	0	8	-	Allowance for unforeseen changes to the annual internal audit plan.

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	Planned	Actual	Variation		
Specialist areas					
Response to fraud/ impropriety	10	1	9	-	We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring. This time relates to the collation of data and subsequent submission of the Audit Commission's Annual Fraud Survey.
IT Controls	20	0	20	-	The nature and detail of ICT audit work for 2010/11 is to be agreed in consultation with RBC management. We will be looking to agree the forthcoming work for 2010/11 on the back of the ongoing audit work around IT service management.
2009/10 audits carried forward					
Housing Benefits Appeals	0	1.5	(1.5)	Substantial Assurance	This review involved a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls. Of the six recommendation raised in our previous review of this area, four have been implemented and two of these require further action. The key point arising from this review related to the fact that performance figures had not been reported to the DWP during 2009/10 and the most recent performance data for the council related to March 2009. This gives rise to a potential reputational risk for the council.
				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 identified areas where controls are not operating effectively as intended.	

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	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
National Non Domestic Rates (NNDR)	0	5.5	(5.5)	Full Assurance	Our review confirmed that the three originally agreed recommendations following our review of this area in June 2009 have been fully implemented. Further audit testing of key controls within the NNDR system did not highlight any further issues.
				In our opinion, from the information provided by managers and the audit testing carried out, the system of internal control over NNDR within the council has adequate controls overall to achieve its control objectives, and these controls are operating effectively.	
Procurement	0	23	(23)	Substantial Assurance	Following completion of our fieldwork the findings from this review have been discussed and agreed with council management and following receipt of formal management responses the report will be finalised. We noted that further action could be taken by officers to monitor supplier expenditure to ensure compliance with the council's contract procedure rules or statutory limits and therefore avoid subsequent legal action against the council.
				In our opinion there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weaknesses in the design and/or inconsistent application of some controls could place the achievement of particular objectives at risk.	

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	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Debtors	0	4.5	(4.5)	Substantial Assurance	Adequate and effective systems and procedures have been formed and applied in relation to the key areas however our audit work identified areas where improvements can be made to enhance the controls in place. Where the payment of instalment is by cheque or over the phone and this is missed for one month a default automated letter is raised by the debtor's module and issued to the debtor requesting payment of the full amount. This raises potential reputational issues for the council in that, the debtor may feel the action was too harsh considering only one payment has been missed.
				In our opinion there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.	

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Creditors	0	7.5	(7.5)	<p>Substantial Assurance</p> <p>The design of the controls in place was generally adequate and the operation of the creditors system was found to be effective in the areas tested. The 'Authority Financials' access permissions allocated to staff in respect of the purchasing module do, however, put the achievement of particular objectives at risk.</p>	<p>Adequate and effective systems and procedures have been formed and applied in relation to some of the key areas however we noted areas where improvements to controls could be made.</p> <p>In particular, current self authorisation limits within the Authority financials purchasing module vary user to user from £0 to £15,000. The requisition limit represents the amount up to which a user can self authorise a requisition. In most cases, the users reviewed also had the ability to receipt an order. As invoices are now scanned to the creditors module and automatically matched to order and receipt details, in effect, there may be no separation of duties within the creditors system for purchases up to £15,000 in value. Our testing identified two such cases valued at £4,784 and £13,857.</p> <p>The 2008/09 recommendation that a duplicate payments report should be scheduled to be produced and reviewed on a regular basis so that potential duplicate transactions may be investigated, has not yet been implemented.</p>

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	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Project Management	0	6	(6)	Full Assurance	Each of the projects reviewed is governed and managed in a manner appropriate to its significance, complexity, and risk, based on the council's project management guidance.
				In our opinion the system of internal control over project management at the council has adequate controls to achieve its control objectives. These controls are operating effectively in the areas covered by this review.	

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	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Partnerships	0	0.5	(0.5)	<p>Limited Assurance</p> <p>In our opinion the system of internal control over the management of partnerships that the council is involved with has generally adequate controls to achieve its control objectives. These controls are generally operating effectively in the areas covered by this review, except that it is not clear that an effective risk assessment has been undertaken for some of the partnerships assessed as part of our sample audit testing.</p>	<p>Certain differences were noted between the practices and procedures applied across partnerships which were of a more strategic nature compared with some service specific partnerships. One example of this is the Lancashire Strategic Partnership (LSP) which is managed and controlled under a separately established structure and includes an Executive Board. Much of the best practice evidenced by the LSP should be applied across the more operational partnerships to ensure an appropriate level of consistency and effectiveness.</p> <p>The council has improved the way in which partnerships are managed through the recent establishment of an online partnership portal. The portal includes a register of partnerships, which enables the council to identify the types of partnership it is involved with and the resources invested, and links to information on partnership working. This guidance is subject to ongoing development and could be expanded in order to clarify requirements in certain areas and strengthen controls.</p>

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	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Fraud Risks	0	0.5	(0.5)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of anti fraud and corruption within the council has adequate controls to achieve its control objectives although some improvements could be made to further enhance these controls</p>	<p>We confirmed that, in the main, the authority is complying with the CIPFA best practice guidelines.</p> <p>Whilst we support the valuable work being undertaken in respect of benefit fraud, the council does not have the same practices in the detection of corporate fraud.</p> <p>We acknowledge the council's activities around awareness training and publicity to raise the profile of corporate fraud within the organisation and the wider community. We are however unable to establish a clear link between policy and operational work in respect of corporate fraud. This could be remedied through the development of a programme of work around existing fraud awareness which is then assessed and monitored on an annual basis.</p> <p>Whilst we acknowledge that risks facing each respective service area are identified and recorded as part of the business planning cycle, the development of a corporate fraud risk register would enable any future proactive fraud related work to be targeted at those high priority areas emerging from this exercise.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
2009/10 audits carried forward (contd)					
Data Quality	0	16.5	(16.5)	<p>Substantial Assurance</p> <p>The design of the controls in place was generally adequate and the operation of the data quality system was found to be effective in the areas tested.</p>	<p>We recommended that the inclusion of sub totals on each supporting spreadsheet would facilitate a reconciliation of reported figures. It was noted that reasons for inclusion or omission of usage data on the supporting spreadsheets are not documented which could lead to potential miscalculations.</p> <p>In respect of NI185 we noted that Capita usage data is not included within the reported figures for the council which does not comply with guidance in this area.</p> <p>The quality of LI218a related information recorded on the Flare system is inconsistent and needs to be improved if there is to be assurance regarding the accuracy of the performance figure calculated and reported for this indicator.</p>
IT Controls	0	8	(8)		<p>Audit fieldwork in respect of this review is now complete and a draft report is due to be issued for management consideration imminently.</p>

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Other areas						
Follow up reviews	5	13	(8)	-	-	Follow up audit work has been performed in respect of our previous reviews of business continuity planning, leisure trust, planning and health and safety. Draft reports have been issued for management consideration and the results of these reviews will be reported in due course.
Risk assessment and strategic planning	5	0	5	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	2.5	3.5	N/A	N/A	This time covers Audit and Accounts Committee preparation and attendance.
Audit and Accounts Committee reporting (annual and periodic progress)	10	4.5	5.5	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 and planning	14	3.5	10.5	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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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation			
Other areas (contd)						
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	0	6	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
Total Days	280	156	124			

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1. Audit assurance levels

Appendix 1

- 1.1 The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the council's objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the council's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the council's objectives.