

Rossendale Borough Council

Internal Audit Service

Monitoring report for the period ended

31st December 2006

1 Purpose of this report

- 1.1 The Annual Audit Plan for 2006/07 was approved by the Performance Management Overview and Scrutiny Committee on 15 June 2006. The plan reflects the approach agreed last year, which appointed Lancashire Audit Service as Rossendale Borough Council's internal auditors for the period 2006/7-2008/9. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2006 to 31st December 2006.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by Rossendale Borough Council's staff during the course of our work.

2 Key issues and themes arising during the period

- 2.1 Over recent financial years the Council has taken a number of steps to address its risks and it is acknowledged that a significant level of progress has been made. It is important now for the Council, given its reduced staff numbers to retain a suitable approach to managing its control environment.
- 2.2 Our work to date on the Council's core financial systems (payroll, creditors and debtors) has raised the lack of a separation of duties as a recurring issue. It is clear that there is a risk to the Council that controls are inadequate to prevent misappropriation of funds, but also that there is a risk to the responsible individual of unfair allegations of impropriety. Given the Authority's size, it is not always practical to achieve an appropriate separation of duties, but it is important to ensure that there is appropriate monitoring of action taken by staff placed in this position. For example financial exception reports should be produced and independently verified regularly.

3 Internal audit work undertaken

Internal audit plan 2006/07

- 3.1 Work carried out during this period was in accordance with the agreed Audit Plan. As coverage of the audit plan continues, details of the progress to date including assurance provided and key issues identified for each of the areas completed to date will be set out in the 'Summary of findings and Assurance' table which forms part of Section 4. Currently, this shows that 237 days have been spent in the nine months since the start of the financial year to deliver the audit plan, which equates to 73% of the total audit activity of 327 days planned for the year.
- 3.2 However it should be noted that part of this time (39 days) relates to the finalisation of 2005/06 audits.
- 3.3 In respect of the balance of the 2006/07 plan, work has been programmed over the remainder of the year to ensure that the audit areas are covered as required by the Council. It should be noted that the finalisation of some of this year's work may slip into April / May, in line with experience from the last financial year.

Core financial systems

Payroll

- 3.4 The 2005/06 work documented the system's controls and an application review was also performed. This year's audit work has focussed upon detailed testing of the system. In our opinion the system of internal control over the operation of the payroll process has inadequate controls to fully achieve its control objectives. Principally this is as a result of the continued lack of a separation of duties between inputting and verifying information and system management within the Complete Human Resource Information System (CHRIS) application. (Discrepancies were also identified in the procedures operating in relation to new starters).
- 3.5 Although progress has been made in introducing some separation of duties within the calculation and input processes, there continues to be inadequate separation in most tasks. The main concern is that the payroll manager (who continues to be the system manager, chief inputter and verifier) creates new establishment posts within the CHRIS system, assigns employees to these posts and attaches bank details to these posts. In addition, the application audit logs and management reports detailing user access are only reviewed by the payroll manager. This lack of a separation of duties is a significant weakness within the system. The Head of Human Resources has agreed to explore the feasibility of introducing an appropriate separation of duties.
- 3.6 However, we have undertaken detailed testing of information held and generated by the CHRIS application, and have found no significant evidence that the risks to the payroll system, which should be mitigated by the key controls, have materialised. It is generally operating effectively as intended and it is also appreciated that adequate budget monitoring should provide a degree of mitigation against the risks to the payroll system.

Debtors

- 3.7 In our opinion the system of internal control over the operation of the debtors system has inadequate controls to fully achieve its control objectives. Principally this relates to a lack of focus on the recovery of outstanding debts. Whilst systems and controls are in place to recover debt, these are not operating effectively.
- 3.8 There is no regular review of the debt position in terms of debts outstanding, recovery action taken or the writing off of debts. Legal Services have the responsibility for the recovery of outstanding debts; however, the recovery of outstanding debts does not receive the attention it deserves. Whilst initially letters are sent to debtors threatening court action, there is no systematic follow up of these letters to pursue the cases to court and testing identified numerous debts where there has been no action for a period of months.
- 3.9 It is important to note that the total number of debtors accounts passed through to legal services represents only a small percentage of total debt raised. The Council has also recently procured the Automated Recovery Management System (ARMS) and once this system goes live it should help to address some of the issues identified.

Furthermore, the total number of debtors accounts raised in 2006/07 is likely to be far fewer than in 2005/06, given the recent changes to the Authority's delivery of services.

- 3.10 There is no separation of duties in place over the raising of invoices, taking payment for invoices, posting income received and writing off bad debts. As with the payroll review, one officer (in this case, the exchequer officer) is involved in all these processes. Apart from this issue, the system for raising invoices was found to be operating effectively. It is acknowledged that the ability to separate the duties satisfactorily is restricted to some degree because of the small number of staff in the section. However, an exchequer services vacancy has recently been filled and this has already introduced a degree of separation in duties.
- 3.11 Management responses to each of our recommendations indicate that positive action has been or will be taken.

Creditors

- 3.12 It is acknowledged that since last year's audit review the Council has introduced a new ordering and creditors' payment system and it is still a developing system. However, in our opinion there needs to be an improvement in the current creditors' control environment as a number of weaknesses have been identified. The access controls built into the Civica Financials creditor system are considered to be compromised because four officers had at the time of the review, full administration level access allowing changes to be made in terms of setting up and deleting users and allocating/amending access rights.
- 3.13 We have some concerns regarding to the standard of records and procedures (specifically orders placed and invoices passed for payment) maintained by budget holders. This is highlighted by the number of duplicate payments identified in the small sample of invoices examined. In addition, there is concern once again regarding the lack of a separation of duties within Exchequer Services.
- 3.14 It was the Council's intention to withdraw all manual order books when the new on-line ordering system was introduced, but due to technical problems with the new system, this has not happened. Consequently there are currently two ordering systems in operation, which increases the risk of fraud or error.
- 3.15 Management responses to each of our recommendations have been received and indicate that positive action has been or will be taken. In particular, it is important to state that since the review the appropriate amendments to access rights have already been made.

Focussed reviews

- 3.16 In consultation with senior management, various focussed reviews (operational as well as financial) have been included in the plan to address the wider operational risks and controls of the Authority. We have performed two of these reviews and a further two have commenced in January 2007.

- 3.17 The fieldwork has been completed on the performance management review and a closure meeting is to be held shortly with the appropriate Head of Service.

Absence management

- 3.18 The review considered the recording, reporting and monitoring of sickness absence, but also considered whether managers are appropriately trained.
- 3.19 The Human Resource (HR) team has developed adequate absence management reports and the regular monitoring of these is performed. However, we do not have the assurance that teams throughout the Authority accurately report all absences to the HR team. Monthly absence forms from managers are often late, or on some occasions, not submitted. The submission of these forms is a key control. Where monthly returns have not been returned, it has been assumed that there have not been any periods of sickness; however this may not be the case. It is therefore our opinion that the system of internal control over the operation of the absence management function has inadequate controls to fully achieve all its control objectives.
- 3.20 In addition, details of staff absences are input into the HR system with no independent sample check of this input being undertaken and there are no checks undertaken of the calculations and input of long-term sickness adjustments.
- 3.21 It is important to note that from the detailed testing performed we did not identify any sickness absences that had not been reported. ie there is no significant evidence that the risks to the system have materialised.
- 3.22 Management responses to each of our recommendations have been received and indicate that positive action has been or will be taken. The time and attendance module of CHRIS has been purchased and is scheduled to be fully operational from April 2007; its implementation should address a number of the issues raised.

Resource input

- 3.23 The staff resource input for the nine months to 31st December 2006 is as follows:

	Audit plan Days	Target %	Actual %
Head of Internal Audit	0.5	3	0.2
Principal Auditor	22	12-20	9.3
Senior Auditor (including IT)	43	25-35	18.2
Audit team members (including IT)	170.5	50-55	72.3
Total	236		

- 3.24 There is an overall imbalance between the days spent between audit team members and the rest of the team. This split reflects the limited progress we have been able to make on focussed reviews, which would involve more of the Senior Auditors' time than the key financial system reviews.

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 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. A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Payroll	25	20	5	x	✓	There is a continued lack of a separation of duties between inputting and verifying information and system management within the CHRIS application
				The system in place has inadequate controls to fully achieve its control objectives; however the system was found to be operating effectively.		
Debtors	25	27	(2)	x	✓	Raising of debtor invoices
				The system in place has inadequate controls to fully achieve its control objectives, however, the system was found to be operating effectively.		
				✓	x	Recovery of outstanding debts
				The system in place has adequate controls to fully achieve its control objectives, however, the system was found not to be operating effectively.		

System adequacy: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

System effectiveness: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended

Lancashire Audit Service: Rossendale Borough Council
Internal Audit monitoring report for the period ended 31st December 2006

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Creditors	20	32	(12)	x	x	Access controls are weak and there is concern over the standard of ordering records and procedures maintained by some budget holders.
				The system in place has inadequate controls to fully achieve its control objectives.		
Council tax	25	0	25	-	-	This work is planned for quarter 4.
Cash & banking	20	16	4	-	-	The fieldwork is complete and draft report prepared, a closure meeting is to be arranged with the appropriate Head of Service. The review focused upon testing as well as documenting the remaining cash collection points that were not documented as part of last year's work.
General ledger and Budgetary control	30	1	29	-	-	This work was planned for quarter 4 and commenced in January 2007.
Focussed reviews						
Best Value Performance Indicators	10	11	(1)	-	-	The fieldwork has been completed this review and a draft report prepared. A closure meeting is to be held shortly with the appropriate Head of Service.
Corporate Governance	10	5	5	-	-	Initial preparation work has been carried out, but as the Authority's ethical governance review is due to be reported soon, the timing is not appropriate for this work to formally start.

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Lancashire Audit Service: Rossendale Borough Council
Internal Audit monitoring report for the period ended 31st December 2006

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Human Resources – Absence Management	15	18	(3)	✓	x	Absence management reports are adequate and they are regular monitored. However, we do not have the assurance that teams throughout the Authority accurately report all absences to the HR team.
				The system in place has adequate controls to fully achieve its control objectives, however, the system was found not to be operating effectively.		
Risk Management	10	2	8	-	-	Time to date has been spent providing advice and assistance to the operational risk management group. Further work is planned for quarter 4 to review the Council's progress with regard to its risk management arrangements.
Single Status	10	0	10	-	-	The work has been rescheduled from quarter 3 to quarter 4.
Client side management arrangements in the commissioning environment	15	0	15	-	-	This work is planned for quarter 4, and initial audit preparation has commenced.
National Fraud Initiative	15	13	2	-	-	This work is ongoing.

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Lancashire Audit Service: Rossendale Borough Council
Internal Audit monitoring report for the period ended 31st December 2006

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Contingency	8	3	5	-	-	Work on the internal audit LPSA certificate in order for Lancashire County Council to claim Performance Reward Grant (PRG) for all district councils.
Specialist areas						
Response to fraud / impropriety	10	0	10	-	-	
IT Controls	15	7	8	-	-	The time to date relates to both following up 05/06 ICT audit recommendations (work on this area is ongoing) and providing advice to the Acting Head of Service to support the new ICT strategy.
2005/06 audits carried forward						
Core financial systems	0	37	(37)	We did not report this way last year.		This time relates to the finalisation of work on the core financial systems. The assurance and key issues were included in the 2005/06 Annual Report.
Partnerships	0	2	(2)	We did not report this way last year.		The time relates to the finalisation of work on this area.
Other areas						
Follow up reviews	15	0	15	-	-	This work is planned for quarter 4.

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Lancashire Audit Service: Rossendale Borough Council
 Internal Audit monitoring report for the period ended 31st December 2006

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Risk assessment and strategic planning	7	10	(3)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	4	7	(3)	-	-	This time covers O&S Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	5	5	-	-	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	15	15	0	-	-	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	3	0	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	10	3	7	-	-	This allocation covers ad hoc advice and assistance to the Authority. Time to date relates to advice regarding the Statement on Internal Control, and the Money Laundering Regulations.
Total Days	327	237	90			

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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