

Rossendale Borough Council

Internal Audit Service

Monitoring report for the period ended

31st December 2007

1 Purpose of this report

- 1.1 The Annual Audit Plan for 2007/08 was approved by the Audit Scrutiny Committee on 14 June 2007. The plan reflects the approach agreed last year, which appointed Lancashire Audit Service as Rossendale Borough Council's (RBC) internal auditors for the period 2006/7-2008/9. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2007 to 31 December 2007.

Acknowledgements

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

2 Key issues and themes arising during the period

- 2.1 There have been no significant issues raised as a result of our reviews undertaken since the previous meeting of the Audit Scrutiny Committee in December 2007.

3 Internal audit work undertaken

Internal audit plan 2007/08

- 3.1 Work carried out during this period was in accordance with the agreed Audit Plan. Details of the progress to date, including assurance provided and key issues identified for each of the areas completed to date, are set out in the 'Summary of findings and Assurance' table which forms part of Section 4. Currently, this shows that 225 days have been spent in the nine months since the start of the financial year to deliver the audit plan. This equates to 78% of the total audit activity of 290 days planned for the year.
- 3.2 Part of this time (11 days) relates to the finalisation of 2006/07 audits that were ongoing as at 31st March 2007.
- 3.3 Since our previous report to the Audit Scrutiny Committee in December 2007, which covered the period ended 31 October 2007, a total of 28 days have been expended towards the completion of the 2007/08 Internal Audit Plan.
- 3.4 In respect of the balance of the 2007/08 plan, work has been programmed over the remainder of the year to ensure that all the areas identified are covered.

Core financial systems

NNDR

- 3.5 In July 2007 we completed a review of the key systems and procedures with respect to NNDR in operation by Capita Group Plc (Capita). We also reviewed the audit recommendations following the previous audit review in February 2006 of the systems and procedures operated by RBC prior to the transfer to Capita.
- 3.6 RBC entered into a strategic partnership agreement with Capita in September 2006, for the provision of revenues, benefits and general customer contact services. The partnership agreement resulted from a detailed evaluation exercise and supports

RBC's commitment to improve its delivery of services for the benefit of the residents of the Borough of Rossendale.

- 3.7 The report relating to our review of the NNDR system has been discussed with Capita and the RBC Service Assurance Team and subsequently issued in final. A number of issues have been raised in respect of the NNDR system and management responses indicate appropriate action has been or will be taken to mitigate the risks arising.
- 3.8 In some instances, arrears at the 'post bailiff' stage of recovery action had not been reviewed since the transfer of services from RBC.
- 3.9 There are a number of issues with regard to access to the NNDR computer system. Certain users have been given a higher level of access than is considered necessary, which weakens the control in the system. In addition, a former employee was found to be still set up on the system.
- 3.10 At the time of our audit only one-off inspections of NNDR properties had been undertaken despite these properties being scheduled for June and July 2007. Since then NNDR properties have been scheduled to be inspected as per the inspection schedule and were brought up to date in October 2007.

General Ledger

- 3.11 We have completed a follow-up review of audit recommendations raised in our previous review of the General Ledger and Budget Monitoring System within Rossendale Borough Council (RBC) in April 2007. This review was undertaken and completed in November 2007.
- 3.12 Our review of the ten recommendations raised as part of the General Ledger and Budget Monitoring review earlier in 2007 has shown that good progress has been made in implementing these recommendations. In summary, the current status of the ten recommendations raised is as follows:

	High Risk/Priority	Medium Risk/Priority	Low Risk/Priority
Recommendations Fully Implemented	1	3	1
Recommendations Partly Implemented	2	2	-
Recommendations Not Implemented	-	1	-

- 3.13 It is acknowledged that the General Ledger system is relatively new and in some respects is still being further developed. We appreciate that progress is being made by the Finance Team in bringing up to date all control account reconciliations and the configuration of the system particularly in terms of access controls.

- 3.14 There is currently no independent review of journals and the existing system access arrangements enable members of staff within the Finance Team to process and authorise journals. We appreciate that the risk of financial loss is minimal however there is a perceived risk that, if unauthorised journals are processed onto the general ledger, inaccurate figures may be reported to management.
- 3.15 Access to the general ledger has not been restricted to the extent that staff within the Finance Team are able to input and authorise transactions resulting in an inappropriate segregation of duties.
- 3.16 Payroll, creditors and debtors control account reconciliations are not currently up to date.
- 3.17 Monthly bank reconciliations have been performed, however, these have not been subject to review and independent authorisation. We noted that there was a £13,500 difference on the bank reconciliation at 30th September 2007 which is currently being investigated.

Housing Benefits

- 3.18 We have completed a review of the key systems and procedures with respect to the Rossendale Borough Council (RBC), Housing Benefit System, in operation by Capita Group PLC (Capita). Following the issue of draft report we obtained management responses and with the exception of one, all other recommendations have been agreed and appropriate action has been or will be taken to mitigate the arising risks.
- 3.19 Capita and RBC management have agreed that due to the change in legislation declarations from social landlords are no longer required although declarations will be issued to all private landlords where the landlord has failed to sign the relevant section on the application form. It was agreed that housing benefit payments would continue even if the completed landlord declaration is not returned. Management do not accept that this is a risk. Authorisation from a landlord to accept payment is not a mandatory requirement and obtaining this authorisation does not affect the statutory rights of the authority to recover an overpayment. This would also have a serious impact on the performance of new claims. The final report in respect of our housing benefits review was issued in January 2008.
- 3.20 In our opinion the system of internal control over the operation of the Housing Benefit System provides adequate controls to achieve its control objectives.
- 3.21 However, weaknesses have been identified in the design of the system and effectiveness of controls which could lead to fraud or financial loss to the Council.
- 3.22 Testing of the assessment of new claims, established that claims have been processed despite authorisations from the claimant or the landlord being omitted. Substantive testing established that the landlord declarations are not consistently signed and authorised by landlords who accept housing benefit payments for a tenant.
- 3.23 There are anomalies surrounding visiting officers records, with regards to time recorded for travelling to, and undertaking, intervention visits. Intervention visit records are used for the calculation and submission of performance data forwarded to the Department for Work and Pensions (DWP), (performance measure 10: – number of interventions for which a review action has been completed).

- 3.24 Visiting Officers do not retain a copy of the Council's Fraud Strategy, although assurance was given by the Verification Team Leader that the Officers are aware of the content of the document.
- 3.25 The reconciliation of uncashed cheques is undertaken infrequently, despite a recommendation made by the Benefit Fraud Inspector, (in 2005), that reconciliations of uncashed cheques should be undertaken promptly.
- 3.26 The Capita overpayments section currently dispatch letters threatening to pass debts onto 3rd party collectors as part of the recovery process. However, Capita do not actually employ the services of bailiffs.
- 3.27 The Housing benefit reconciliation is not signed/dated by the originator.
- 3.28 Declaration of interest forms have not been completed for all staff working on the RBC benefits team.

National Fraud Initiative (NFI)

- 3.29 The Audit Commission's data matching exercise runs every two years and is designed to help participating bodies (local government, central government, the NHS, etc) identify possible cases of fraud, and detect and correct any consequential under, or overpayments from the public purse. RBC is required under section 6 of the Audit Commission Act 1998 to participate in the NFI data matching exercise.
- 3.30 The core of NFI is the matching of data to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud. NFI exercises have helped to detect matters such as claimants' undeclared income and those who claim simultaneously from different authorities. All authorities, including RBC, are currently investigating the results of the latest exercise. The investigations relating to the matches identified have now been concluded and the results have been fed into the Audit Commission's NFI results system. The outcome of the investigations for the NFI exercise nationwide is due to be published in Spring 2008. The exercise relating to these categories of matches will be run again in summer of 2008.
- 3.31 Following a successful pilot scheme, the Audit Commission has now decided to extend the mandatory data submissions to include Council Tax and the Electoral Register for every local authority. This exercise will involve matching Council Tax and Electoral Register data to other datasets scrutinizing areas such as, single person discounts, second home discounts, student disregards/ exemptions and tenancy issues. This exercise commenced in October 2007 with the uploading of Council Tax data for the Audit Commission's NFI system and the matches are due in Spring 2008 which will be investigation during 2008.
- 3.32 The core data matching exercise takes place every two years and the exercise on Council Tax is to be run in between the core exercise, again every two years.
- 3.33 Whilst Council Tax data has already been forwarded to the Audit Commission RBC have decided not to release data on the Electoral Register for data matching purposes. This is the approach taken by the majority of local districts.

Focussed reviews

- 3.34 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.

Leisure Trust

- 3.35 Following a full options appraisal and 'SWOT' analysis in 2004 the Council established a Non Profit Distributing Organisation, Rossendale Leisure Trust ('Trust'), to manage the majority of RBC's leisure facilities and services. Leisure facilities and services operated by the Trust include the following:

- Haslingden Sports Centre;
- Bacup Leisure Hall;
- Ski Rossendale;
- Swimming Pool in Haslingden; and
- Arts Development and Healthy Lifestyles including sports development.

- 3.36 RBC granted the Trust a 25-year lease for each of the five leisure facilities and committed to three year funding agreements.

- 3.37 RBC appointed the former Head of Communities and Partnerships to monitor the Council's ongoing relationship with the Trust. Our review of the Leisure Trust considered the effectiveness of the controls and procedures in place towards the effective monitoring and management of the contractual relationship between RBC and the Leisure Trust.

- 3.38 Audit fieldwork in respect of this review has been completed and a draft report issued to RBC management. The findings will be subsequently reported to Members once management responses to the recommendations agreed are received.

Personnel – Recruitment and Selection

- 3.39 We have completed a review of the Authority's recruitment and selection procedures. This review was undertaken between October and December 2007.

- 3.40 The draft report relating to this review has been issued to relevant RBC management for comments in December 2007 and a final report will be issued following receipt of management responses. Further details of the findings from this review will be presented to the Committee in due course.

Resource input

3.41 The staff resource input for the nine months to 31 December 2007 is as follows:

	Audit plan Days	Target %	Actual %
Head of Internal Audit	2	3	1
Principal Auditor	18	12-20	8
Senior Auditor (including IT)	61	25-35	26
Audit team members (including IT)	144	50-55	65
Total	225		100

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	
Core financial systems						
Payroll	5	0	5	-	-	Audit planned to be completed in Q4
Debtors	10	0	10	-	-	Audit planned to be completed in Q4
Creditors	10	8	2	-	-	Audit fieldwork in respect of this review is now complete and a draft report for management response is due to be issued imminently.
Council tax	10	0	10	-	-	Audit planning around this audit is in progress and fieldwork is due to commence in February 2008.
Housing Benefits	25	27	(2)	-	-	Audit fieldwork in respect of this review has been completed and a draft report issued for management response. A final report is to be issued imminently.
National Non Domestic Rates (NNDR)	10	16	(6)	✓	✓	This review of NNDR has identified weaknesses in the effectiveness of the system of internal control relating to following up outstanding arrears and inspections of NNDR properties, and the design of the system in respect of access to the NNDR system where certain users have been given a higher level of access than is required for their specific roles.
				In our opinion the system of internal control over the operation of the NNDR systems has adequate controls to fully achieve its control objectives		

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	
Cash & banking	5	0	5	-	-	Audit planned to be completed in Q4
General ledger and Budgetary control	5	5	0	-	-	Audit fieldwork in respect of this review is now completed and a draft report has been issued for management response. A final report will be issued in due course.
Treasury Management	5	5	0	x	✓	A significant weakness was identified in the design of the treasury management system relating to there not being adequate segregation of duties and authority limits to restrict access to the withdrawal of funds from the National Westminster bank account by the Exchequer Manager. Subsequent action has been taken by management to rectify the situation with respect to the separation of duties issue.
Asset Management	5	7	(2)	✓	✓	The majority of recommendations arising from our reviews in January 2005 and April 2006 have been addressed. However, issues surrounding the financial procedure rules, updating the asset register, the process for identification of new acquisitions and the disposal of assets policy are yet to be actioned.
Procurement	15	0	15	-	-	Audit planning around this audit is in progress and fieldwork is due to commence in February 2008.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Contingency	5	0	5	-	-	
Focussed reviews						
Best Value Performance Indicators	21	22	(1)	✓	✓	The final report relating to this review was issued to RBC management in October 2007. The theme of our main findings surround the fact that data for some of the PIs reviewed has been incorrectly calculated. In each case, the differences identified are minor and represent an understating of performance. Action has already been taken or is recommended in this report to prevent calculation errors in future.
				In our opinion the system of internal control over the operation of performance management within the Authority has adequate controls to fully achieve its control objectives.		
Corporate Governance	10	13	(3)	✓	✓	We have identified a number of areas, where changes in the requirements of the CIPFA/ SOLACE guidance for best practice in relation to Corporate Governance will need to be properly planned for, or areas where potential improvements to the existing arrangements could be made. RBC need to consider requirement of the revised code to produce an Annual Governance Statement, establish systems to improve reporting around value for money and ensure risk management processes and correctly applied within partnerships.
				In our opinion the system of internal control over the operation of the high level Corporate Governance systems has adequate controls to fully achieve its control objectives		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Human Resources – Recruitment and Selection	10	18	(8)	-	-	Audit fieldwork in this area has been completed and a draft report issued to RBC for management response. Following receipt of management responses a final report will be issued.
Risk Management	10	0	10	-	-	Terms of reference for this audit have been produced and it is intended that fieldwork will be commenced around 18 th February 2008.
Client side management arrangements – Leisure Trust	15	17	(2)	-	-	Audit fieldwork in respect of this review has been completed and a draft report issued for management response in October 2007. A formal meeting between Internal Audit and respective RBC management was instigated in September 2007 where highlighted issues and proposed recommendations were agreed. A final report will be issued upon receipt of formal management responses.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	15	18	(3)	-	-	Following a successful pilot scheme, the Audit Commission have now decided to extend the mandatory data submissions to include Council Tax for every local authority. This exercise will involve matching Council Tax data to other datasets scrutinizing areas such as, single person discounts, second home discounts, student disregards/exemptions and tenancy issues. The details of all council tax payers were provided to the Audit Commission for matching purposes during the week commencing 22 nd October 2007. The results from this exercise will be provided in the early part of 2008.
Anti Fraud Corruption Policy (inc Whistle-blowing)	10	0	10	-	-	This work is planned to be undertaken in Q4.
Specialist areas						
Reactive Audit Work	10	5	5	-	-	At the request of RBC management a review of the flexitime system at a specified location was undertaken. A number of operational issues were raised and brought to the attention of RBC management for action.
IT Controls	20	13	7	-	-	Audit fieldwork on this area is currently underway and progress is ongoing.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2006/07 audits carried forward						
Creditors	0	3.5	(3.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively		
Debtors – Raising of Debt	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		
Debtors – Debt Management	0	1.5	(1.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls to fully achieve its control objectives and was found not to be operating effectively		
Payroll	0	2	(2)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to fully achieve its control objectives and was found to be operating effectively.		

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Council Tax	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its control objectives.		
Performance Management	0	1	(1)	✓	✓	The time relates to the finalisation of work on this area.
				The controls and procedures in place with regards to performance management were found to be adequate, however testing did identify a number of areas where further improvements could be made		
Cash Collection and Banking	0	0.5	(0.5)	x	x	The time relates to the finalisation of work on this area.
				The system in place has inadequate controls which are operating ineffectively to achieve its control objectives		
Client Side Management Arrangements	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls to achieve its controls objectives.		

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General Ledger and Budget Monitoring	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area.
				The system in place has adequate controls, which are operating effectively, towards achievement of the control objectives.		
Other areas						
Follow up reviews	15	0	15	-	-	Audit planned to be completed in Q4
Risk assessment and strategic planning	5	8	(3)	-	-	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	8	(2)	-	-	This time covers Audit Scrutiny Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	8	2	-	-	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	11	3	-	-	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.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
Liaison with Audit Commission	3	2	1	-	-	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	3	3	-	-	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	290	225	65			

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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