

Rossendale Borough Council

Internal Audit Service

Monitoring report for the period ended

31 January 2009



1 Purpose of this report

- 1.1 The Annual Audit Plan for 2008/09 was approved by the Audit Committee on 5 June 2008. The plan reflects the approach agreed last year, which appointed Lancashire Audit Service as Rossendale Borough Council's (RBC) internal auditors for the period 2006/07 - 2008/09. 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 2008 to 31 January 2009.

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, an issue has been identified in the design of the Housing Benefit Appeals system whereby notifications processed by the Assessment team which result in a revision to the benefit entitlement are not currently recorded within the appeals section of the Northgate system. As such these revisions will not currently be identified and picked up for reporting purposes to the Department for Work and Pensions (DWP) as part of national indicator - PM17. Whilst there is no financial implication there is a potential reputational risk to the authority as performance is currently being understated.
- 2.2 We also highlighted an issue as part of our work around business continuity planning. Each Business Continuity Plan (BCP) states that the plan should be tested at least annually with the results reported and fed into the review of the plan. Most BCPs were developed in 2006/07, but there has not as yet been a documented exercise to test the plans. There have been two "real" incidents affecting the Council's activities, but managers did not activate their plans on these occasions or record the incidents as tests. We were advised however that, subsequent to our audit fieldwork, the BCPs for all departments were tested on the 22 December 2008. A debrief is planned and the results will be included in the revision in April 2009. Annual testing is to be carried out each October, subject to the approval of Senior Management Team.
- 2.3 Internal audit work was undertaken to provide assurance on treasury management arrangements and controls around investments, in light of the recent losses suffered by UK local authorities as a result of investments in Icelandic Banks. Whilst RBC did not suffer any of the above mentioned losses it was felt that this was a good opportunity to specifically review the arrangements in place. The management of the Authority's investments is generally well controlled however we noted that there is no restriction on the amount that can be invested with any one particular institution potentially resulting in significant financial loss to the Authority should one of these institutions face liquidation. We appreciate that Sector Consulting, the Authority's treasury management consultants, supply a list of recognised Banks and Building Societies. It is RBC policy that investment opportunities are limited to institutions listed on the recognised list provided by Sector.

3 Internal audit work undertaken

Internal audit plan 2008/09

- 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 227 days have been spent in the ten months since the start of the financial year to deliver the audit plan. This equates to 81% of the total audit activity of 280 days planned for the year.
- 3.2 However it should be noted that part of this time relates to the finalisation of 2007/08 audits.
- 3.3 In respect of the balance of the 2008/09 plan, work has been programmed over the remainder of the year to ensure that all the areas identified are covered.

Resource input

- 3.4 The staff resource input for the ten months to 31 January 2009 is as follows:

	Audit plan Days	Target %	Actual %
Head of Internal Audit	0	3	0
Principal Auditor	18	12-20	8
Senior Auditor (including IT)	67.5	25-35	30
Audit team members (including IT)	141.5	50-55	62
Total	227		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						
Housing Benefits Investigation Unit	15	15	0	✓	✓	The final audit report in respect of this review was issued in November 2008. Controls were generally operating effectively as intended, although in some instances the effectiveness of controls was reduced as a result of limited staffing resources.
				The controls in place are adequate and were generally operating effectively as intended.		
Housing Benefits appeals	10	9	1	✓	✓	The final audit report was issued in December 2008 and comprised three low and 3 medium priority recommendations. The three medium priority recommendations were in relation to findings which highlighted that reported performance figures could not be reconciled to internal records and a true and fair view of all revisions processed was not provided in reported figures.
				In our opinion the system of internal control over the operation of the appeals process, in general, has adequate controls to achieve its control objectives. However we did note deficiencies in the reporting of performance to the DWP, in particular PM17 which does not consider all revisions processed. Controls were generally operating effectively as intended.		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Housing Benefits Performance Indicators - Interventions	5	7	(2)	✓	✓	The final audit report in respect of this review was issued in November 2008. Controls were found to be operating effectively as intended. This review focused on the processes and procedures surrounding the appropriate collation, input, internal monitoring and quality checking of data around NI 180 and NI 181. One low priority recommendation relating to internal performance targets has been raised and agreed by management.
				The controls in place are adequate and operating effectively as intended.		
National Non Domestic Rates (NNDR)	10	10.5	(0.5)	-	-	Audit fieldwork in respect of this review is now complete and a draft report will be issued for management response in due course.

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
General ledger and Budgetary control	10	11	(1)	✓	✓	The final audit report was issued in February 2009 and contained 2 medium priority recommendations. Internal audit highlighted issues around control account reconciliations and access restrictions to the general ledger.
				In our opinion the system of internal control over the general ledger and budget monitoring within the Authority has adequate controls overall to fully achieve its control objectives. These controls were found to be operating effectively but there are areas where controls could be strengthened to ensure that the integrity of the accounting system is maintained and transactions are correctly processed.		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Treasury Management	5	6	(1)	✓	✓	The final audit report was issued in February 2009. RBC does not currently hold any borrowing and we found that the management of the Authority's investments is generally well controlled. The Authority's Financial Strategy requires review to improve clarity around the definition for long term investments and RBC's policy on investments with any one institution.
				In our opinion the system of internal control over the operation of treasury management within RBC has generally adequate controls to achieve its objectives. There are however some weaknesses in the effectiveness of controls where further improvement is required.		
Asset Management	10	18	(8)	-	-	Audit fieldwork on this review was completed in January 2009 and a draft report subsequently issued for management response. A finalised report will be compiled and issued upon receipt of responses from management.

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Procurement	5	5	0	✓	✓	Two new recommendations have been raised to strengthen the controls around the use of unapproved suppliers where there is selected contractor in place for the Council. These findings relate to exception reports, designed to identify supplies purchased from contractors other than those with whom the Council has an agreed contract, not being run and reviewed on a regular basis. Also, undertaking a periodic review of petty cash transactions to highlight the use of non-contracted suppliers for goods and services.
				Our review of the three recommendations raised as part of the Procurement review earlier in 2008 has shown that good progress has been made in implementing these recommendations. In summary, the current status of the three recommendations raised is as follows: <ul style="list-style-type: none"> • One (33.3%) has been fully implemented, • One (33.3%) has been partly implemented; and • One (33.3%) of these is no longer considered appropriate. 		
Cash collection and banking	10	5	5	-	-	Audit fieldwork in respect of this review is currently in progress and upon completion a draft report will be issued for management response.
Payroll	10	9	1	-	-	Audit fieldwork is now complete and a draft report is due to be issued imminently.

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems (contd)						
Debtors	5	0	5	-	-	Audit scheduled to be undertaken in Q4.
Creditors	5	0	5	-	-	Audit scheduled to be undertaken in Q4.
Focussed reviews						
Use of Resources / KLOE	20	15	5	-	-	Time to date has been spent on initial assessment work around the Use of Resources and the areas of our audit work that these impact on.
Data Quality	20	0	20	-	-	Initial discussions have been held with RBC management to consider coverage within the data quality review for 2008/09. We will also liaise with the Audit Commission to determine scope and coverage for this audit.
Planning	15	18.5	(3.5)	-	-	Audit fieldwork in this area has now been completed and a draft report is due to be issued imminently.
Health and Safety	10	12	(2)	✓	✓	This audit report was finalised and issued in October 2008. We noted that the core service requirements which make up the consultancy agreement are being adhered to. Reports from the health and safety audits performed have been issued to all Service Unit Managers informing them of the recommendations made.
				The controls in place are adequate and 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

Lancashire Audit Service: Rossendale Borough Council
 Internal Audit monitoring report for the period ended 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Focussed reviews (contd)						
Client side management arrangements – Leisure Trust	5	0.5	4.5	-	-	An update has been obtained on the current progress with recommendations and a further more detailed follow up exercise is scheduled to be undertaken in Q4.
National Fraud Initiative	15	12.5	2.5	-	-	Time spent to date by NFI key contact in arranging Fair Processing Notices and liaising with Authority contacts regarding the provision of required datasets.
Business Continuity Planning	15	17	(2)	✓	✓	A final report was issued in January 2009. Four medium and two low priority recommendations were raised as part of this review. The Authority's restructure of the organisation has resulted in changes affecting the ownership and maintenance of some BCPs. Responsibility for some key areas may also have altered. All BCPs need, therefore, to be reviewed to ensure that responsibility for each "Mission Critical Activity" (MCA) is correctly identified. Each BCP states that the plan should be tested at least annually with the results reported and fed into the review of the plan. Most BCPs were developed in 2006/07, but there has not as yet been a documented exercise to test the plans. There have been two "real" incidents affecting the Council's activities, but managers did not activate their plans on these occasions or record the incidents as tests.
				In our opinion the system of internal control over business continuity planning within the Authority has adequate controls overall to fully achieve its control objectives. Senior managers have identified the Council's key priorities and procedures have been put in place to develop and review BCPs for each priority activity based on the Zurich Municipal (ZM) model.		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Focussed reviews(contd)</i>						
Contingency	6	0	6	-	-	
<i>Specialist areas</i>						
Response to fraud/ impropriety	10	0	10	-	-	
IT Controls – Payment Card Industry Data Security Standard	15	1.5	13.5	-	-	At the request of RBC management this review has been deferred and is planned to be undertaken in June 2009.
<i>2007/08 audits carried forward</i>						
Anti-fraud and Corruption Policy	0	5.5	(5.5)	✓	✓	A final audit report has been issued in respect of this review.
				The controls in place are generally adequate and in the main, operating effectively as intended.		
Cash and Banking	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended. .		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
Council Tax	0	0.5	(0.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended. .		
Debtors	0	6.5	(6.5)	✓	✓	A final report has been issued in September 2008 following receipt of management responses. Of the eight recommendations agreed at the previous audit, three have been fully implemented, one is considered to be on-going and four remain outstanding. From discussions with key personnel and testing in the appropriate areas, five new recommendations have been raised.
				The controls in place are generally adequate and operating effectively as intended.		
Follow-up reviews	0	5	(5)	✓	✓	A final report was issued in September 2008. Appropriate action was found to have been taken or was ongoing to implement recommendations agreed in previous audit reviews.
				The controls in place are adequate and operating effectively as intended. .		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
IT Controls - NNDR	0	0	0	-	-	A draft report has been issued for management response and a subsequent meeting was held with management to discuss the findings and agree the recommendations. This report will be finalised following receipt of the completed action plan.
Payroll	0	5.5	(5.5)	✓	✓	A final report has been issued. All of the 11 recommendations made at the previous review in September 2007 have now been implemented or are being adequately addressed. There is still a requirement to ensure the Disaster Recovery Plan is fully tested.
				The controls in place are adequate and operating effectively as intended.		
Procurement	0	3	(3)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and operating effectively as intended.		

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2007/08 audits carried forward (contd)						
Risk Management	0	2.5	(2.5)	✓	✓	The time relates to the finalisation of work on this area which was reported in the Annual Audit Report 2007/08.
				The controls in place are adequate and generally operating effectively as intended.		
Other areas						
Follow up reviews	5	2	3	-	-	A schedule containing recommendations raised during 2007/08 audits has been produced for subsequent follow up during 2008/09.
Risk assessment and strategic planning	5	2.5	2.5	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	3.5	2.5	N/A	N/A	This time covers Audit Committee preparation and attendance.
Central reporting (annual and periodic progress)	10	8	2	N/A	N/A	This allocation covers the time required for the Committee reporting process as well as preparing the monitoring reports for the Head of Financial Services.

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 31 January 2009

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas (contd)						
Liaison with senior management	14	7	7	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.
Liaison with Audit Commission	3	1	2	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	1.5	4.5	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
Total Days	280	227	53			

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