

**Rossendale Borough Council**

**Internal Audit Service**

**Monitoring report for the period ended**

**31 October 2009**



## **1 Purpose of this report**

- 1.1 The Annual Audit Plan for 2009/10 was approved by the Audit Committee on 30 June 2009. This report reflects the approach agreed when Lancashire Audit Service was appointed as the Council's internal auditors. Our approach essentially follows the same principles that we have established over the last year. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2009 to 31 October 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, no significant weaknesses have been identified that would have a material impact upon the Council's internal control environment.

## **3 Internal audit work undertaken**

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

- 3.1 Work carried out during this period was in accordance with the agreed Audit Plan. Details of the progress to date, including assurance provided and key issues identified for each of the areas completed to date, are set out in the 'Summary of findings and Assurance' table which forms part of Section 4. Currently, this shows that 139 days have been spent in the seven months since the start of the financial year to deliver the audit plan. This equates to 50% of the total audit activity of 280 days planned for the year.
- 3.2 However it should be noted, as indicated above, that part of this time relates to the finalisation of 2008/09 audits.
- 3.3 Since the previous meeting of the Audit and Accounts Committee on 30<sup>th</sup> September 2009 we have finalised the report in respect of our work around housing benefit overpayments. In our opinion the system of internal control over the operation of the overpayments system has generally adequate controls to achieve its control objectives. However we did note deficiencies in the reporting of performance, and overpayment coding processes which will require management attention. Controls were generally operating effectively as intended.
- 3.4 The criteria for coding overpayments as fraud has not been consistently applied. This may mean that the Council fails to recover the maximum amount per week from ongoing benefit where this is applicable. We acknowledge that the recovery of the overpayment will still be valid although the rate at which monies are recovered may be slower. Whilst current quality checking procedures specifically involve reviewing new claims and change in circumstances it appears that this does not include checking of overpayments for accuracy and completeness. Audit testing noted two instances where there has been no action for more than 12 months on cases submitted for County Court action. Management have acknowledged the delays on County Court cases and additional resources have been put in place to catch up with the backlog of

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

- 3.5 In respect of the balance of the 2009/10 plan, work has been programmed over the remainder of the year to ensure that all the areas identified are covered. As at November 2009:
- One report had been agreed and issued in final;
  - Three reports had been issued in draft awaiting management responses and these will be reported to the next meeting of this Committee; and
  - In respect of five other reviews the fieldwork was in progress.
  - The remaining eight audits have been scheduled for completion in the remainder of quarter 3 and quarter 4 of 2009/10.
- 3.6 Outcomes arising from our work will be reported to this Committee upon finalisation of the reports.

***Resource input***

- 3.7 The staff resource input for the five months to 31 October 2009 is as follows:

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	Audit plan Days	Target %	Actual %
Head of Internal Audit	0	3	0
Principal Auditor	14	12-20	10
Senior Auditor (including IT)	42	25-35	30
Audit team members (including IT)	83	50-55	60
Total	139		100

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## **4 Summary of findings**

### ***Overall summary and assurance provided***

- 4.1 We have set out in the table on the following pages a brief summary of each review undertaken during the period and the areas to be covered in the remainder of the year. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business where work has been finalised. The key issues identified encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.
- 4.2 As the plan progresses, we will distil the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.
- 4.3 The table indicates briefly with simple ticks (✓) and crosses (x) our overall assessment of each system where reviews have been finalised during the period and the assurance you may take from its operation in supporting effective internal control. A dash (-) indicates an area where work is in progress or where we are unable to give an assessment because of the reason given.

**Summary of our findings and assurance**

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Core financial systems</b>						
Housing Benefit Overpayments	8	10	(2)	✓	✓	The final audit report in respect of this review was issued in October 2009. We noted deficiencies in the reporting of performance, and overpayment coding processes which will require management attention. The criteria for coding overpayments as fraud has not been consistently applied resulting in failure to recover the maximum amount per week from ongoing benefit where this is applicable. We acknowledge that the recovery of the overpayment will still be valid although the rate at which monies are recovered may be slower. Current quality checking procedures do not include checking of overpayments for accuracy and completeness. We noted two instances where there has been no action for more than 12 months on cases submitted for County Court action. Management have acknowledged the delays on County Court cases and additional resources have been put in place to catch up with the backlog of cases.
				In our opinion the system of internal control over the operation of the overpayments system has generally adequate controls to achieve its control objectives. Controls were generally operating effectively as intended		
Council Tax	10	10	0	-	-	Audit fieldwork in respect of this review 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

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Core financial systems (contd)</b>						
Housing Benefits appeals	5	0	5	-	-	This review involving a follow up of recommendations raised in our previous review of this area in 2008/09 and testing of key controls is scheduled to be undertaken in January 2010.
National Non Domestic Rates (NNDR)	5	0	5	-	-	This review is scheduled to be undertaken in Quarter 4 of 2009/10.
General ledger and budgetary control	5	5.5	(0.5)	-	-	The draft report was issued for management response in November 2009. The results of this review will be reported to members upon finalisation of the report.
Treasury Management	10	10	0	-	-	The findings from this review are currently under discussion with management and will be reported upon finalisation of this report.
Asset Management	5	0	5	-	-	Audit scheduled to be undertaken in Q4.
Procurement	15	0	15	-	-	Audit scheduled to be undertaken in Q4.
Cash collection and banking	5	1	4	-	-	Audit fieldwork has been completed during November 2009 and the draft report will be issued for management comment in due course.

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<b>Core financial systems (contd)</b>						
Payroll	5	2	3	-	-	Audit fieldwork is currently in progress and due to be completed in late November 2009.
Debtors	15	0	15	-	-	Audit scheduled to be undertaken in Q4.
Creditors	15	0	15	-	-	Audit scheduled to be undertaken in Q4.
Contingency for core systems work	5	4.5	0.5			Contingency used for additional work in relation to Treasury Management.
<b>Focussed reviews</b>						
Project Management	15	5.5	9.5	-	-	The scope for this review was agreed with RBC senior management in November 2009 and audit fieldwork has since been in progress and is due to be completed in December 2009.
Partnerships	20	23	(3)	-	-	Following completion of audit fieldwork in October 2009 the draft report relating to this review was issued for management response. We will report findings from this review to members upon finalisation of the report.
Fraud Risks	20	9	11	-	-	Audit fieldwork is in progress and findings will be reported in due course.

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<b>Focussed reviews (contd)</b>						
Data Quality	15	0	15			Audit scheduled to be undertaken in Q4.
National Fraud Initiative	15	2.5	12.5	-	-	Time spent to date by NFI key contact in liaising with Authority contacts regarding the investigation and follow up of data matching matches and results. Savings of £25,133.62 have so far been identified mainly in relation to council tax single person discount, council tax rising 18's and housing benefit data matches. These are being actively chased to facilitate recovery of the amounts owed.  In addition, submission of council tax and electoral roll data is currently ongoing to bring RBC in line with other authorities.
Contingency	8	0	8	-	-	Allowance for unforeseen changes to the annual internal audit plan.
<b>Specialist areas</b>						
Response to fraud/ impropriety	10	0	10	-	-	We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.
IT Controls	20	0.5	19.5	-	-	The terms of reference for an IT service management review have been agreed with RBC management and this review is due to commence in January 2010.

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

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

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<b>2008/09 audits carried forward(contd)</b>						
Cash collection and banking	0	1.5	(1.5)	✓	✓	The final report relating to this review was issued in July 2009. Whilst there were no significant findings, areas were identified where controls could be enhanced to further reduce the risks faced by the council. The eight recommendations in this report are all of low risk/priority.
				In our opinion the system of internal control over cash collection and banking within the council has adequate controls overall to fully achieve its control objectives and these controls are operating effectively.		
National Non Domestic Rates (NNDR)	0	0.5	(0.5)	✓	✓	The Final audit report in respect of this review was issued in June 2009. Following changes in legislation around empty property rates we consider that it would be more efficient to specifically target empty properties that are in receipt of an exemption. We also recommended that in view of the introduction of a three month exemption period, the frequency of inspections should be increased. The implementation dates for the recommendations have been deferred to March 2010, to await the Government's decision over future relief/exemptions and possibility that all properties with a rateable value of £15,000 or less would be exempt from rates for 2009/10. Currently 400 properties fall within this category.
				In our opinion the system of internal control over the operation of the NNDR system has adequate controls to fully achieve its control objectives. However, weaknesses have been identified in the current system for inspecting properties in receipt of empty property relief and we have made recommendations to strengthen the existing controls in this area.		

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

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<b>2008/09 audits carried forward(contd)</b>						
Data Quality	0	17	(17)	✓	✓	<p>There are areas where controls could be strengthened or enhanced to ensure that resources are used efficiently and effectively to improve the performance of services and reduce the risks faced in this area by the council. In particular, Legal Services does not currently have any performance measures or other effective means of:</p> <ul style="list-style-type: none"> <li>• evidencing the achievements of the service;</li> <li>• demonstrating the quality, cost effectiveness and efficiency of the service; or</li> <li>• identifying where improvements to service delivery could or should be made.</li> </ul> <p>The Acting Assistant Head of Legal Services is exploring how performance can be measured and the action plan with the 2009/10 business plan includes a target for achieving LEXCEL accreditation.</p> <p>Errors were identified on the spreadsheet used to collate municipal and household waste data and calculate the recycling and composting performance indicators. These errors mean that the reported quarterly performance figures for 2008/09 have been understated since quarter 1.</p>

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<b>Other areas</b>						
Follow up reviews	5	0	5	-	-	A schedule containing recommendations raised during 2008/09 audits has been produced for subsequent follow up during 2009/10.
Risk assessment and strategic planning	5	0.5	4.5	N/A	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Committee and other meetings	6	4.5	1.5	N/A	N/A	This time covers Audit Committee preparation and attendance.
Audit and Accounts Committee reporting (annual and periodic progress)	10	8.5	1.5	N/A	N/A	This allocation covers the time required for the Committee reporting process as well as preparing the monitoring reports for the Head of Financial Services.
Liaison with senior management	14	3	11	N/A	N/A	This time covers the monthly update meetings with the Head of Finance as well as meetings with relevant Senior Managers.

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	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Other areas(contd)</b>						
Liaison with Audit Commission	3	0.5	2.5	N/A	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	4	2	N/A	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
<b>Total Days</b>	<b>280</b>	<b>139</b>	<b>141</b>			

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