

Rossendale Borough Council

Internal Audit Service

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



1 Purpose of this report

- 1.1 The Annual Audit Plan for 2010/11 was approved by the Audit Committee on 15 March 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 October 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 Our review of **IT Service Management** was completed in November 2010 and established that the council's ICT Team has established an effective IT service management control framework which effectively addresses the IT Infrastructure Library (ITIL) principles and relevant international standard (ISO/IEC 20000:2005) controls. Consequently, we were able to give **substantial assurance** over the controls established.
- 3.2 Our report provides an overview of the council's current position in comparison to the relevant (ISO/IEC 20000-2:2005) code of practice and we have identified areas for improvement and control and made suggestions and recommendations where appropriate.
- 3.3 The recommendations are aimed at the service and relationship management processes which if accepted will further strengthen control within IT service management.
- 3.4 One of the recommendations raised the need for ICT management to provide support for the business during contract negotiation and continue to manage the ongoing delivery of services by the supplier. This would facilitate the effective management of change and compliance with contracted service levels.
- 3.5 We highlighted the need to hold annual service review meetings between ICT and service units to establish performance issues and discuss the need for changes to service, scope and performance targets. Furthermore, service reports should be issued to customers on the provision of services including an assessment of achievements and trends against service levels.

Internal audit plan 2010/11

- 3.6 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
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Assurance' table which forms part of Section 4. Currently, this shows that 138 days have been spent in the seven months since the start of the financial year to deliver the audit plan. This equates to 49% of the total audit activity of 280 days planned for the year.

- 3.7 In addition, 72 days have been spent during 2010/11 in finalising the audits that were ongoing at 31 March 2010. The unused allocations brought forward from the preceding year are now shown in the summary table.
- 3.8 In our opinion the system of internal control over the operation of **treasury management** within the authority has adequate controls to achieve its control objectives and is generally operating effectively in the areas reviewed. We were therefore able to give **substantial assurance** over controls in this area.
- 3.9 We have raised four low priority recommendations relating to clarifying definitions and reporting of targets in the Treasury Management Strategy, and further enhancement of the comprehensive 'Treasury Management Practices' document to incorporate agreed financial limits for the Head of Finance and Property Services and formally documenting details of officers within the Council to sign cheques and authorise bank transactions.
- 3.10 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. Currently, there are six audit reviews underway at various stages of completion relating to:
- Asset management;
 - General ledger and budgetary control;
 - Housing Benefits;
 - Council Tax;
 - Licensing;
 - Waste and recycling.

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	24	(4)	-	Audit fieldwork in respect of this review is now complete and a draft report was issued for management consideration in October 2010. The results of this review will be reported to members upon finalisation of the report.
General ledger and budgetary control	10	12	(2)	-	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 was performed later following the transfer of the council's accounting system onto a new server in October 2010. A draft report containing the results of our review and findings has been issued for management consideration. We will report the findings upon finalisation of the report.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems					
Treasury Management	5	9	(4)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the operation of treasury management within the authority has adequate controls to achieve its control objectives and is generally operating effectively in the areas reviewed</p>	<p>There are no significant findings arising from our review of treasury management arrangements. We have raised four low priority recommendations requiring action by management.</p> <p>The recommendations raised surround the clarity of definitions and terms within the Treasury Management Strategy and Treasury Management Practices document.</p>

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	Planned	Actual	Variation		
Core financial systems					
Housing Benefits	15	1.5	13.5	-	<p>Our initial discussions with the Service Assurance Team and Capita highlighted that a review of housing benefits has been undertaken by the Audit Commission. This forms part of the Audit Commission's annual review of the Council's subsidy claim. Following internal audit's inspection of the work performed by the Audit Commission the scope of this review has been reduced to avoid any duplication of the work already performed by the Audit Commission.</p> <p>Our audit fieldwork in respect of this review commenced on-site in November 2010. Findings from this review will be reported to members in due course.</p>
Council Tax	8	1	7	-	The terms of reference relating to this review have been agreed and fieldwork is due to commence in late November 2010. The results of our review will be reported in due course.
Creditors	5	0	5	-	To ensure our work is co-ordinated in line with the Audit Commission's requirements this review is scheduled to be undertaken in Quarter 4 of 2010/11.

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	Planned	Actual	Variation		
Core financial systems					
Debtors	5	0	5	-	To ensure our work is co-ordinated in line with the Audit Commission's requirements this review is scheduled to be undertaken in Quarter 4 of 2010/11.
Payroll	10	0	10	-	To ensure our work is co-ordinated in line with the Audit Commission's requirements 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>Focused reviews</i>					
Licensing	15	17	(2)	-	Audit fieldwork in respect of this review is now complete and a draft report was issued for management consideration in November 2010. The findings from this review will be reported to members upon receipt of management responses and finalisation of this report.
Waste and Recycling	20	15	5	-	Audit fieldwork in respect of this review was completed in November 2010. A draft report is due to be issued for management consideration.
Health Inequalities	20	1	19	-	This work has been put on hold pending the completion of a separate 'Task and Finish' review in this area.
Data Quality	15	0	15	-	This review is scheduled to be undertaken in Quarter 4 of 2010/11. We have scheduled a meeting with the head of people and policy to discuss the scope and terms of reference for this review.

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	Planned	Actual	Variation		
<i>Focused reviews</i>					
National Fraud Initiative	15	13	2	-	<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> <p>The Audit Commission contacted us in November 2010 regarding some errors and irregularities in the submission of data for market traders, payroll and public licences. These issues have resulted in data being resubmitted where necessary.</p>
Contingency	8	8	0	-	Contingency used for additional work in relation our reviews of procurement (5.5) and asset management (2.5).

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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. Audit work around IT service management is now complete and the recommendations within the report have been agreed with Council management. We will consider the findings from our IT service management review and liaise with Council management to agree the forthcoming work for 2010/11.

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Housing Benefits Appeals	1.5	1.5	0	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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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
National Non Domestic Rates (NNDR)	5	5.5	(0.5)	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.	

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Procurement	12	18.5	(6.5)	<p>Substantial Assurance</p> <p>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.</p>	<p>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 any potential legal action against the council.</p>

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Debtors	5.5	4.5	1	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 weaknesses in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.	

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Creditors	4	7.5	(3.5)	Substantial Assurance	<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>
				<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>	

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Project Management	0	7	(7)	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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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
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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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Fraud Risks	0.5	0.5	0	<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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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
Data Quality	14.5	16.5	(2)	<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>

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	Brought forward	Actual	Variation		
2009/10 audits brought forward					
IT Controls	10	10	0	<p>Substantial Assurance</p> <p>The review established that the council's ICT Team has established an effective IT service management control framework which effectively addresses the ITIL principles and ISO/IEC 20000:2005 controls.</p> <p>Our report provides an overview of the council's current position in comparison to the ISO/IEC 20000-2:2005 code of practice and we have identified areas for improvement and control and made suggestions and recommendations where appropriate.</p>	<p>This review was finalised in November 2010 and we have received satisfactory responses to the seven recommendations made in our report. The recommendations are aimed at the service and relationship management processes which if accepted will further strengthen control within IT service management.</p> <p>One of the recommendations raised the need for increased support for the business during contract negotiation and continued management of the ongoing delivery of services by ICT management. This would facilitate the effective management of changes and compliance with contracted service levels.</p> <p>We highlighted the need to hold annual service review meetings between ICT and service units to establish performance issues and discuss the need for changes to service, scope and performance targets. We also noted that service reports should be issued to customers on the provision of services including an assessment of achievements and trends against service levels.</p>
2009/10 audit days	53	72	(19)		

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	Planned	Actual	Variation		
Other areas					
Follow up reviews	5	13.5	(8.5)	-	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	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	This time covers Audit and Accounts Committee preparation and attendance.
Audit and Accounts Committee reporting (annual and periodic progress)	10	7.5	2.5	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	6.5	7.5	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		
Other areas					
Liaison with Audit Commission	3	2.5	0.5	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	This allocation covers ad hoc advice and assistance to the Authority when requested.
2010/11 days	280	138	142		
Total Days	333	210	123		

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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.