

**Rossendale Borough Council
Internal Audit Service**

**Annual report of the Head of Internal Audit
for the year ended 31 March 2011**

June 2011



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1. Introduction

Purpose of this report

- 1.1 On 7 December 2005 the Cabinet approved a proposal for Lancashire County Council's Internal Audit Service to provide internal audit services for Rossendale Borough Council for three years from 1 April 2006, with an option for two further years. This report covers the second of the optional years taken up by the council as part of the agreement.
- 1.2 This report summarises the work that the council's Internal Audit Service has undertaken during 2010/11, being the second of the optional years taken up as part of the above agreement. It sets out the key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

- 1.3 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom requires the Head of Internal Audit to provide a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the internal audit service has performed during 2010/11.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix 1 to this report.

Interim reports

- 1.5 This report builds on the matters reported in previous years, which have been the subject of discussions throughout the year with respective service managers and where applicable the senior management team during the course of our work.
- 1.6 Summaries of the key areas of our work have been reported to the Audit and Accounts Committee as they have been completed.

Acknowledgements

- 1.7 I am grateful for the assistance that has been provided to the internal audit service by the staff across the council in the course of our work during the year.

Ruth Lowry
Head of internal audit
Lancashire County Council

2. Assessment of internal controls

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can conclude that the Rossendale Borough Council's (council) internal control environment, risk management process and corporate governance, taken as a whole are adequate and generally effective. I have identified individual themes that present limited exceptions to this broad conclusion, and have set these out below.
- 2.2 Consequently, we are able to provide **substantial** assurance over the internal control environment. Definitions of the assurance levels used are attached as Appendix 2.
- 2.3 Whilst recognising there are control issues which need to be addressed, our work during the year has identified good areas of effective control too. As a result of our work this year no significant issues have been identified which would impact on the Authority's Annual Governance Statement and we can also confirm that good progress has been made in implementing recommendations raised in our previous year's reviews, although action is still required in some areas.

Management's responses to our findings

- 2.4 Each of the issues I have set out in this report has been discussed with the relevant service managers. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2011/12 and provide support to managers to develop pragmatic solutions to the control issues identified.

Follow-up of our previous work

- 2.5 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Except as noted, the majority of the recommendations we have agreed with management have been implemented, and revised action plans have been obtained detailing the progress to date and timescale for full implementation if this has not already been achieved.

Summary of assurance provided by the Internal Audit Service

- 2.6 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance.

Assignments relating to:	Assurance				
	Full	Substantial	Limited	Nil	In progress
2010/11 reviews					
Key financial systems	0	7	0	0	4
Focussed reviews	0	2	0	0	1
Follow up reviews	0	4	0	0	0
2009/10 reviews completed in 2010/11					
Key financial systems	1	5	0	0	-
Focussed reviews	1	3	1	0	-
Total assignments	2 (7%)	21 (73%)	1 (3%)	0 (0%)	5 (17%)

3. Key issues and themes

3.1 We have detailed below some of the key issues and themes arising out of our internal audit work during 2010/11 and these have been split between our core financial systems work and focused reviews undertaken. The issues noted below do not cover all of the outcomes identified as part of our audit work and focus primarily on significant issues although the findings from each of our audit reviews can be found in Table 1 at the back of the report.

Core Financial Systems

3.2 Our work to date on the council's core financial systems (payroll, debtors, creditors, general ledger, cash and banking and council tax) has found that there are generally sound systems of internal control to achieve the control objectives. However, some weaknesses have been identified and we have made recommendations to strengthen the existing controls in this area. No high priority recommendations were raised as part of these reviews.

3.3 From our assessment of previous audit recommendations we also found that action is being taken towards actioning recommendations raised in the 2009/10 reviews.

3.4 There is the facility on the **payroll** system to require passwords to be of a minimum length, to restrict the reusing of previous passwords, and to set password character option requirements, but these system controls have not been activated. Existing password controls established for the payroll system are that passwords expire after six months and users are locked out after five attempts at the password. In addition, mitigating controls are established on the payroll system to prevent unauthorised or unlawful processing of data on the payroll system these include the requirement for users to authenticate their identification by password, access to the payroll system can only be gained after the individual has logged onto the

Council server and access restrictions are relevant to the duties of each user. The above improvements will be implemented to enhance the security controls currently in place.

- 3.5 We noted that the **Asset Management** Plan is in need of review to reflect current practices and incorporate a template to record progress and actions against set targets. Management intend to incorporate the action plan items onto the Council's performance management system, Covalent, which will enable performance to be monitored and regularly reported. Whilst the asset management database has been populated with asset data, some information relating to premises costs and energy monitoring is also held on System Link and this is due to be transferred to the database.
- 3.6 Our review of the **general ledger and budget monitoring** systems highlighted that explanations for manual journals were not always recorded on the system and in the last 12 months, a number of manual journals had no explanation against them however we did not identify any error or irregularity in respect of these. We acknowledge that budget monitoring is performed on a monthly basis and there is adequate separation of duties in this process to reduce the risk of unauthorised journals being input to disguise erroneous transactions and inaccurate financial reporting. A monthly review process will be established as part of which discrepancies will be investigated.
- 3.7 We also noted that budget virements agreed and implemented during the course of the year are not reflected within the general ledger although these are subsequently recorded in the monthly management accounts and therefore exposure to any risk of orders for goods or services being placed by service areas when there are insufficient funds available in the individual budget will be limited to the end of each month. Management intend to produce and review a 'funds overridden' report on a monthly basis to identify instances where the established budget on the procurement system has been exceeded.
- 3.8 During 2010/11 we completed a review of **procurement** arrangements which was a 2009/10 review ongoing at 31 March 2010. Whilst we were able to give substantial assurance around the control framework 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 which otherwise could result in fines and penalties for the council. With a view to improving the controls in this area management propose to review all expenditure over £60,000 as part of a monthly exercise to identify potential compliance issues.
- 3.9 Whilst the schedule of inspection visits for **council tax** properties is adequately completed we noted that the property inspector has continued to make inspection visits to empty properties which have been empty for longer than 12 months and therefore, are no longer in receipt of a discount. We appreciate that this a requirement of the contract between

RBC and Capita, however, the value of continued inspections is unclear. Management acknowledged that a review of the practice in respect of inspections for long term empty property may have been appropriate the announcement of the New Homes Bonus scheme, which includes financial incentives for bringing long term empty property back into use, means that this work will be of benefit in the future.

- 3.10 We also identified one council tax debt, for an amount over £8,000, which had been written off by the Billing Team Leader in August 2010 without prior authorisation at an appropriate level. In accordance with the current financial limits, debts in excess of £5,000 need to be authorised by Cabinet. Whilst we understand that management are aware of this debt and this was subsequently reported to Cabinet for approval in March 2011, this does not comply with the Council's financial limits as detailed above. In future, approval for bad debt write offs will be appropriately obtained prior to processing the write off on the system.
- 3.11 We worked closely with the Audit Commission in 2009/10 to structure our work to comply with their requirements and this approach has once again been adopted during 2010/11. Our change in approach to the core financial systems, which now provides an overview of each system and sample testing in accordance with Audit Commission requirements provides assurance that we have completed an appropriate level of systems documentation and audit testing for each core financial system. The Audit Commission rely on our work to complete their International Standards in Auditing (ISA) assessments.

Focussed Reviews

- 3.12 Our review of **waste and recycling** noted adequate and effective systems for the delivery of waste collection service in accordance with the cost sharing agreement and the identification and monitoring of service specific priorities and risks.
- 3.13 The service is, however, having difficulty with the key recycling target (LI 82ai), which was only achieved in two of the months between April 2009 and October 2010. There are, though, plans to improve recycling participation and to put the emphasis on waste minimisation, linked into the development of a waste strategy. The restructure of the Operations and Communities Teams, agreed by Cabinet in March 2011, is also intended to enable an increased focus on the recycling agenda.
- 3.14 In our opinion, there is a generally sound system of internal control over the Council's **licensing arrangements**. Following our recommendation Council management intend to consider the introduction of performance indicators by June 2011 which would facilitate the measurement of performance and improvements against specific indicators and statutory targets. It was noted during our review that a number of insurance reviews relating to Hackney and Private Hire vehicles had not been

undertaken as scheduled. Appropriate action was taken by the Licensing Unit during the audit to obtain the necessary evidence.

- 3.15 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.
- 3.16 The recommendations in this report were aimed at the service and relationship management processes which will further strengthen control within IT service management. 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.
- 3.17 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.

Fraud/special investigations

- 3.18 We have not been involved in the investigation of any frauds/thefts and have not been made aware of any occurring.

National Fraud Initiative (NFI)

- 3.19 Internal Audit works closely with the council's external auditor, the Audit Commission, to support its work wherever possible. We therefore support the Audit Commission's work proactively to identify potentially fraudulent transactions, known as the National Fraud Initiative (NFI).
- 3.20 The NFI is a data matching exercise, which began in 1996. It is designed to help participating bodies to detect fraudulent and erroneous payments. The testing relevant to Rossendale Borough Council (RBC) is primarily directed towards reducing the level of housing benefit, but testing also addresses other areas including payroll, creditors, market trader licences and, taxi driver licences. During 2008 this exercise was extended to include insurance claims, personal licences to supply alcohol and concessionary travel passes.
- 3.21 Prior to 2008, the NFI exercise was carried out every two years. Since 2008 the exercise has been extended to include data matching between council tax data and the electoral roll within individual authorities. This new requirement has been dovetailed into the two year cycle so that there is now an exercise every year but with different data sets alternating between years.

3.22 Council tax data (October 2009) and electoral roll data (December 2009) was submitted to the Audit Commission for matching purposes and the associated results from this data were obtained in March 2010. These matches were investigated during the remainder of 2010. Details of the matches are contained in the table below:

<u>Rossendale Borough Council</u> 2009/10 NFI Exercise - Council Tax/Electoral Roll Matches	
<u>Category of Matches</u>	<u>No. of Matches</u>
Council Tax Single Person Discount	320
Council Tax Rising 18s	107
Total	427

3.23 The investigation of these matches has now been concluded. The outcomes of the investigations are as follows:

<u>Rossendale Borough Council</u> 2009/10 NFI Exercise - Council Tax/Electoral Roll Matches			
<u>Category of Matches</u>	<u>No of Frauds Identified</u>	<u>No. Of Errors Identified</u>	<u>Value £</u>
Council Tax Single Person Discount	31	24	21,942
Council Tax Rising 18s	0	1	397
Total	31	25	22,339

3.24 The 2010/11 NFI exercise has identified savings of £22,339 in respect of council tax discounts being claimed, either fraudulently or in error.

3.25 The results categorised as 'errors' for all of the matches in the table, are where overpayments have been made, but there has been a reasonable explanation as to why the error has occurred as opposed to an intention to purposefully defraud the council. For example, a householder may have neglected to inform the council that their single person discount is no longer applicable, but they have agreed to pay any overpayment when they have been contacted.

3.26 The results identified as frauds are where there has been a deliberate attempt to withhold information that would have resulted in a loss of the discount. Action is currently ongoing to recover the overpaid balances as part of the standard debt recovery procedures.

4. Implications for the Annual Governance Statement

- 4.1 Each head of service has a responsibility for maintaining a system of sound internal controls and risk management processes that support the achievement of the corporate and service objectives, and for reviewing their effectiveness. The work of internal audit may be used to assist and inform respective heads of service in their requirements to produce a service Assurance Statement on Internal Controls, which in turn may be included within the overall governance arrangements for the council.
- 4.2 We do not feel that any of the issues raised in this report are sufficiently significant to impact on the council's Annual Governance Statement.

5. Internal audit inputs and performance

- 5.1 The outputs of our audit work have been reported in detail to the managers of individual service areas, and the key themes arising for them and for the council as a whole are set out above. However in fulfilling its duty to consider the performance of the council's internal audit service, the Audit and Accounts Committee will be interested, on behalf of the council, to understand the way that the Internal Audit Service has deployed its resources against the audit plan for the year.

Internal audit plan 2010/11

- 5.2 Work carried out during 2010/11 was in accordance with the audit plan presented and approved by Audit and Accounts Committee on 15 March 2010. Details of the assurance provided and key issues identified for each of the areas covered was provided to senior managers. A summary of our findings for key areas is to be found at section 6 of this report.
- 5.3 We have undertaken a total of 229 audit days against planned input of 280 days. The variance of 51 days relates to ongoing audit reviews as at 31 March 2011 which will be finalised and reported to the committee in due course, and that the reviews relating to health inequalities, data quality, and IT controls were not undertaken as originally intended.
- 5.4 This work has been undertaken with regular liaison with the council's external auditors to minimise any duplication.
- 5.5 Individual action plans have been agreed in respect of all the completed areas of work. These set out the management responses to each of our recommendations, and indicate that positive action has been, or will be taken. Implementation of these plans will be followed up as part of our 2011/12 work.

Internal audit performance

- 5.6 During the summer of 2010 the Audit Service used the CIPFA benchmarking service to undertake a client satisfaction survey and the results we received were pleasing. The Audit Service is regarded as 'good'

overall, and in particular we achieved an improvement in the timeliness of our reporting, which is important to our clients and has previously been assessed only as 'adequate' but in 2010 was assessed as 'good'. This is an area the Audit Service has been working for some time and is part of our wider service development work.

5.7 We have recently begun to issue client satisfaction surveys for the summer of 2011.

5.8 We have also updated our self assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK to assess compliance with this Code. We continue to demonstrate a high degree of compliance and no further significant actions are required.

6. Summary of key findings

6.1 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.

6.2 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.

6.3 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 2.

6.4 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.

6.5 **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.

6.6 **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	20	0	<p>Substantial Assurance</p> <p>The design of the controls in place was generally adequate and the operation of the asset management system was found to be effective in the areas tested. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.</p>	<p>This report was finalised in January 2011. The Council has established an adequate asset management framework which includes a comprehensive Corporate Asset Management Plan and repairs and maintenance programme. The Council has also adopted a centralised data system for recording all assets.</p> <p>We noted however that the Asset Management Plan is in need of review to reflect current practices and incorporate a template to record progress and actions against set targets. Whilst the asset management database has been populated with asset data, some information relating to premises costs and energy monitoring is also held on a separate system which could lead to duplication.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
General ledger and budgetary control	10	11	(1)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over general ledger and budgetary control is 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>Our review of the general ledger and budget monitoring systems highlighted that explanations for manual journals were not always recorded on the system and in the last 12 months, a number of manual journals had no explanation against them however we did not identify any error or irregularity in respect of these. We acknowledge that budget monitoring is performed on a monthly basis and there is adequate separation of duties in this process to reduce the risks arising.</p> <p>We also noted that budget virements agreed and implemented during the course of the year are not reflected within the general ledger although these are subsequently recorded in the monthly management accounts and therefore exposure to any risk of orders for goods or services being placed by service areas when there are insufficient funds available in the individual budget, will be limited to the end of each month. Management intend to produce and review a 'funds overridden' report on a monthly basis to identify instances where the established budget on the procurement system has been exceeded.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Treasury Management	5	5	0	<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>
Housing Benefits	15	13.5	1.5	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the housing and council tax benefit system at the Council has adequate controls to achieve its control objectives. System controls are generally operating effectively in the areas covered by this review.</p>	<p>This review was finalised in February 2011. Adequate and effective systems and procedures have been formed in the monitoring and achievement of performance indicators, claimant home visits, cancellations, backdated payments and quality checking.</p> <p>Our audit work did, however, highlight areas where improvements are required to the control framework particularly around Discretionary Housing Payments (DHP). In 2010/11 there has been a reduction in the take-up of DHP compared with 2009/10. If the funds available for DHP are not used in full this may result in potential reputational issues for the Council. We appreciate that management are aware of this and action is being considered to improve the position.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Council Tax	8	8.5	(0.5)	<p>Substantial Assurance</p> <p>In our opinion the systems and procedures in place for the management of internal control over the operation of the council tax system were found to be adequately designed and operating effectively. There are no significant findings from our review.</p>	<p>A planned schedule of inspection visits is undertaken in respect of council tax. We noted that the property inspector has continued to make inspection visits to empty properties which have been empty for longer than 12 months and therefore, are no longer in receipt of a discount; the value of continued inspections is unclear. A recent announcement of the New Homes Bonus scheme, which includes financial incentives for bringing long term empty property back into use, means that the current inspection regime will be of benefit in the future.</p> <p>We have reviewed a sample of 11 debts which have been written off since April 2010. One of these, for an amount over £8,000, was written off by the Billing Team Leader in August 2010 without prior authorisation at an appropriate level. In accordance with the current financial limits, debts in excess of £5,000 need to be authorised by Cabinet. Whilst we understand that management are aware of this debt and this is due to be reported to Cabinet for approval in March 2011 this does not comply with the Council's financial limits as detailed above.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Creditors	5	1	4	-	This review was in progress at 31 March 2011, and the outcome will be reported upon finalisation.
Debtors	5	1.5	3.5	-	This review was in progress at 31 March 2011, and the outcome will be reported upon finalisation.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Payroll	10	13.5	(3.5)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the Council's payroll system has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review. Appropriate action has been taken to implement the recommendations made following the 2009/10 internal audit review of the payroll.</p>	<p>Existing password controls established for the payroll system are that passwords expire after six months and users are locked out after five attempts at the password.</p> <p>There is the facility on the payroll system to require passwords to be of a minimum length, to restrict the reusing of previous passwords, and to set password character option requirements, but these controls have not been activated.</p> <p>There is a risk of potential financial loss if personal information is not properly protected or access to the data is inappropriately restricted.</p> <p>Mitigating controls are established on the payroll system to prevent unauthorised or unlawful processing of data on the payroll system. These include the requirement for users to authenticate their identification by password, access to the payroll system can only be gained after the individual has logged onto the Council server and access restrictions are relevant to the duties of each user.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Procurement	5	2	3	-	This review was in progress at 31 March 2011, and the outcome will be reported upon finalisation.
NNDR	10	0	10	-	This review was in progress at 31 March 2011, and the outcome will be reported upon finalisation.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Core financial systems (contd)					
Cash Collection and Banking	10	12	(2)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the Council's cash collection and banking system within the areas of Building Control and Land Charges has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review.</p>	<p>There is only one officer involved in the recording of cash/cheque/card payments received by the Building Control team and the submission of money for banking, so no independent check that all remittances recorded in the receipt book have been forwarded. There are, though, compensatory controls that reduce the risks of poor separation of duties in the receipting and banking process. For example, receipts for cheques are itemised on a record of income sheet passed with the cheques to the Exchequer Team and this is checked by the cashier when inputting income details to ICON. In addition, the Building Control Manager maintains a cumulative record of applications to monitor inspections and income.</p> <p>Although the amounts are not material, banking delays may occur within Building Control Services when the usual officers involved are absent or have other duties.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focused reviews</i>					
Licensing	15	15	0	<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 consistently applied.</p>	<p>Our review did not highlight any significant areas of weakness although there are areas where improvements can be made to enhance the controls in place.</p> <p>It is considered good practice that performance indicators are introduced to measure performance and improvements against specific indicators and statutory targets where applicable.</p> <p>It was noted during the review that a number of insurance reviews relating to Hackney and Private Hire vehicles had not been undertaken as scheduled. Appropriate action was taken by the Licensing Unit during the audit to obtain the necessary evidence.</p> <p>The Local Authority Licensing System (LaIPac) exception reporting should be developed where possible to reduce the use of manual reports, which would improve overall enforcement response and effectiveness.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focused reviews (contd)</i>					
Waste and Recycling	20	27	(7)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the waste and recycling collection service at the Council has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review.</p>	<p>Our review of waste and recycling noted adequate and effective systems for the delivery of waste collection service in accordance with the cost sharing agreement and the identification and monitoring of service specific priorities and risks.</p> <p>The service is, however, having difficulty with the key recycling target (LI 82ai), which was only achieved in two of the months between April 2009 and October 2010. There are, though, plans to improve recycling participation and to put the emphasis on waste minimisation, linked into the development of a waste strategy. The restructure of the Operations and Communities Teams, agreed by Cabinet in March 2011, is also intended to enable an increased focus on the recycling agenda.</p>
Health Inequalities	20	1	19	-	<p>This work has been put on hold pending the completion of a separate 'Task and Finish' review in this area.</p>

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focused reviews (contd)</i>					
Community Leisure Association of Whitworth – Financial Controls	0	17	(17)		We agreed to undertake this review at the request of Council management. A draft report relating to this review has been issued to CLAW for management consideration. Findings from this review will be reported to members upon finalisation of the report.
Data Quality	15	0.5	14.5	-	Following further consultation with Council management this review has been deferred to 2011/12.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
<i>Focused reviews (contd)</i>					
National Fraud Initiative	15	15	0	-	<p>Council tax data (October 2009) and electoral roll data (December 2009) was submitted to the Audit Commission for matching purposes and the associated results from this data were obtained in March 2010. These matches were investigated during the remainder of 2010. The investigation of these matches has now been concluded and the exercise has identified savings of £22,339 in respect of council tax discounts being claimed, either fraudulently or in error. Action is ongoing to recover the overpaid balances as part of the standard debt recovery procedures.</p> <p>Data matches relating to the general category of matches were released by the Audit Commission in January 2011. The NFI key contact has been liaising with respective service managers to follow up and investigate the data matches. The results of these investigations and potential savings will be reported to members at a future meeting.</p>
Contingency	13	8	5	-	Contingency used for additional work in relation our reviews of asset management (4.5) and council tax (3.5).

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Specialist areas					
Response to fraud/ impropriety	10	2	8	-	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. We have also supported the Audit Commission in their fraud risk assessment work during 2010/11.
IT Controls	20	0	20	-	Following completion of the IT service management review, we have been requested to defer any further ICT audit work until 2011/12.
2009/10 audits brought forward					
Housing Benefits Appeals	1.5	1.5	0	Substantial Assurance 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.	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.

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Review area	Audit days			Assurance	Key issues/Comments
	Brought forward	Actual	Variation		
2009/10 audits brought forward (contd)					
National Non Domestic Rates (NNDR)	5	5.5	(0.5)	<p>Full Assurance</p> <p>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.</p>	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.

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	Brought forward	Actual	Variation		
2009/10 audits brought forward (contd)					
Procurement	12	24	(12)	<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 (contd)					
Debtors	5.5	4.5	1	<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 controls put the achievement of particular objectives at risk.</p>	<p>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.</p>

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

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	Brought forward	Actual	Variation		
2009/10 audits brought forward (contd)					
Project Management	0	7	(7)	<p>Full Assurance</p> <p>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.</p>	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.

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	Brought forward	Actual	Variation		
2009/10 audits brought forward (contd)					
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 (contd)					
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 (contd)					
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 (contd)					
IT Controls	10	10.5	(0.5)	<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>

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	Brought forward	Actual	Variation		
2009/10 audits brought forward (contd)					
Cash collection and banking	0	0.5	(0.5)	<p>Substantial Assurance</p> <p>In our opinion, from the information provided by managers and the testing carried out, the system of internal control over cash collection and banking within the council has adequate controls overall to achieve its control objectives, and these controls are operating effectively.</p>	<p>Audit testing was performed to assess the current status of the originally agreed action points raised in our previous report of this area. We confirmed that three of the eight recommendations previously raised had been appropriately implemented whilst the remaining three were partly implemented at the time of our review.</p> <p>We have obtained satisfactory management responses to ensure the outstanding recommendations will be fully implemented at the next available opportunity.</p>
2009/10 audit days	53	78.5	(25.5)		

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	Planned	Actual	Variation		
Other areas					
<p>Follow up reviews</p> <p>In a change from previous years, each review undertaken is followed up separately and a distinct report issued for each area.</p>	5	17.5	(12.5)	Substantial Assurance	<p>Business Continuity - Of the six recommendations previously raised, four were found to be fully implemented whilst two of these were in progress and partly implemented.</p> <p>The requirement to implement a process to remind plan owners to update Business Continuity Plans (BCPs) has since been put in place via the Council's performance management system, Covalent.</p> <p>An exercise to test the BCP is planned for 2011 although a date is still to be set. The results from this test will be reflected in respective BCPs with details of any issues arising and how these have been addressed in the revised plans.</p>

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	Planned	Actual	Variation		
Other areas (contd)					
Follow up reviews (contd)				Substantial Assurance	Leisure Trust - Of the five recommendations previously raised, four were found to be fully implemented whilst one of these had not been implemented at the time of our review. Formal terms of reference for operational and strategic meetings with the Leisure Trust are due to be produced now that the leisure development programme and related performance indicators have been put in place.
				Substantial Assurance	Planning - Of the four recommendations previously raised, three were found to be fully implemented whilst one of these was in progress and partly implemented. Discrepancies highlighted between planning objections recorded on the system and the data reported in the subsequent planning inspector's report have been raised at the Development Control team meetings and an independent check is performed to ensure accuracy of reported figures.

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	Planned	Actual	Variation		
Other areas (contd)					
Follow up reviews (contd)				Substantial Assurance	Health and Safety - Of the two recommendations previously raised, one was found to be fully implemented whilst the other was in progress and partly implemented. A central record of correspondence relating to the follow up of health and safety audit recommendations and actions will be held on the Council's network folder. A separate folder has been created to retain all correspondence and evidence.
Risk assessment and strategic planning	5	0.5	4.5	N/A	This time relates to the day-to-day management of the Authority's audit plan.
Audit and Accounts Committee and reporting (annual and periodic progress)	16	16	0	N/A	This allocation covers Audit and Accounts Committee preparation and attendance and reporting during the year.
Liaison with senior management and planning	14	15	(1)	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 (contd)					
Liaison with Audit Commission	3	4.5	(1.5)	N/A	This time relates to regular liaison meetings with the Audit Commission.
Ad hoc advice and support	6	3	3	N/A	This allocation covers ad hoc advice and assistance to the Authority when requested.
2010/11 days	280	229	51		
Total Days	333	307.5	25.5		

1. Scope, responsibilities and assurance

Approach

- 1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- 1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- 1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- 1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- 1.7 There have been no limitations to the scope of our work.

Limitations on the assurance that internal audit can provide

- 1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- 1.10 I have prepared this report solely for Rossendale Borough Council. As you are aware, this report forms part of a continuing dialogue between the internal audit service, the chief executive, Audit and Accounts Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 1.11 I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Audit assurance levels and classification of audit recommendations

Audit assurance

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 service 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 service 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 service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Audit recommendations

All recommendations are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*