

Rossendale Borough Council

Internal Audit Service

**Monitoring report
for the period ended 31 July 2011**



1 Purpose of this report

- 1.1 The Annual Audit Plan for 2011/12 was approved by the Audit Committee on 15 June 2011. The plan reflects the approach agreed when Lancashire County Council's Internal Audit Service was reappointed 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 2011 to 31 July 2011.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by staff of the Council 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 2010/11

- 3.1 Several reviews that were ongoing as at 31 March 2011 have subsequently been finalised, relating to accounts payable, accounts receivable and National Non Domestic Rates (NNDR). In respect of our financial controls review of Community Leisure Association of Whitworth (CLAW) a draft report has been issued for management consideration and this will be finalised upon receipt of management responses. A draft report relating to our review of procurement is due to be issued imminently and the results of this review will be reported to members upon finalisation of the report.

Accounts payable

- 3.2 Adequate and effective systems and procedures have been formed and applied in the majority of areas, however, we noted that two of the recommendations made in the 2009/10 audit report have not been implemented. These recommendations are still applicable; consequently areas remain where improvements can be made to enhance the controls in place. The audit work we have undertaken allows us to provide **substantial assurance** over the design and effectiveness of the controls in place in the Council's accounts payable system.
- 3.3 In particular, current self authorisation limits for users within the Authority Financials purchasing module vary from £0 to £15,000. As invoices are now scanned to the creditor module and automatically matched to order and receipt details, there may be no segregation of duties within the accounts payable system prior to payment for purchases up to £15,000 in value. We acknowledge however, that the compensatory controls relating to prepayment report checks and authorisation of suppliers prior to set up on the system, reduce the inherent risks.
- 3.4 The 2009/10 recommendation that a duplicate payments report is produced and reviewed on a regular basis so that potential duplicate transactions can be investigated has also not yet been implemented.

Accounts receivable

- 3.5 In our opinion the system of internal control over the Council's accounts receivable system has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review. The audit work we have undertaken allows us to provide **substantial assurance** over the controls in place for the cash collection and banking system.
- 3.6 Two medium and two low priority recommendations were made following the last internal audit review of accounts receivable in April 2010. Two of these recommendations are now fully implemented and, whilst some progress has been made towards implementing the remaining two recommendations, further action is required relating to the Sundry Debt Management Policy sections on interest charges and accounting procedures for debts outstanding for over 180 days.
- 3.7 The Sundry Debt Management Policy requires the coding of bad debts over 180 days to the service team account where the income was originally receipted and, whilst this is not currently enforced, management intend to consider instigating this process in the light of ongoing debt collection performance. We acknowledge that the debt management process has been further developed during 2010/11 to include sundry debt collection figures within the monthly financial monitoring report along with closer monitoring of sundry debt collection performance.
- 3.8 The Sundry Debt Management Policy currently states that "All sundry invoices will specify that "If payment is not received within the due date, interest will become payable at the rate of 8% per annum." The policy goes on to state that "The Council should (unless there are exceptional circumstances) charge the standard rate of interest on any commercial debt which is being paid by instalment." This implies that interest will be charged in all instances although this is currently not occurring in practice. Either the policy should be updated to reflect current practice within the Council or interest should be charged at the specified rate in accordance with the existing policy.
- 3.9 The Exchequer Services team is currently performing a review of the instalment process which will involve identifying and documenting the stages of the instalment process with a view to ensuring that instalment debts are managed and recovered in the most efficient and effective manner. We appreciate that instalment debts are redirected to the standard recovery route and as part of this process have been actively chased and recovered.

NNDR

- 3.10 In our opinion the system of internal control over the Council's NNDR system has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review. Overall, the audit work we have undertaken allows us to provide substantial assurance over the design and effectiveness of the NNDR system.
- 3.11 Due to recent changes in NNDR relief available for empty commercial and industrial properties, almost all such empty properties within Rossendale will no longer receive relief in the same way and going forward relief from NNDR will only be available for new declarations. It was therefore recommended that the existing schedule of empty property inspection be changed to take account of this and enable inspection resources to be utilised more effectively. An impact assessment will now be

undertaken to consider the benefits of changing the inspection regime to focus on empty properties where payment is not being made and identify changes in liability before advanced recovery action takes place.

Internal audit plan 2011/12

- 3.12 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 approximately 73 days have been spent in the four months since the start of the financial year to deliver the 2011/12 audit plan. This equates to 28% of the total audit activity of 260 days planned for the year. In addition, 24 days have been used in finalising audit reviews that were ongoing at 31 March 2011.
- 3.13 In respect of the balance of the 2011/12 plan, work has been programmed over the remainder of the year to ensure the areas identified are covered. As at 31 July 2011, six audit reviews were ongoing at varying states of completion. These relate to:
- Corporate governance;
 - Elections;
 - Contract management;
 - Information governance;
 - Partnerships; and
 - National Fraud Initiative (NFI) work.
- 3.14 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		
Controls over cross-cutting risks					
Corporate Governance	20	21.5	(1.5)	Provisional assurance: Substantial	Audit fieldwork in respect of this review is now complete. A draft report has subsequently been produced and shared with respective service managers. We will finalise the report upon receipt of management responses and then report the findings to members.
Partnerships (Health, Leisure and Communities)	32	8	24	-	Audit fieldwork in respect of this review is in progress and a draft report will be issued for management consideration in due course.
Information Governance	18	6.5	11.5	-	Audit fieldwork in respect of this review is in progress. A draft report will be issued for management consideration in due course.
Service-specific controls					
Elections	10	11	(1)	Provisional assurance: Substantial	Audit fieldwork in respect of this review is now complete and a draft report has been produced and issued to the relevant service managers for consideration.

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Review area	Audit days			Assurance	Key issues/Comments
	Planned	Actual	Variation		
Service-specific controls (continued)					
Contract Management	15	4	11	-	Audit fieldwork in respect of this review commenced in July 2011. A draft report for management consideration upon completion of our fieldwork. We will finalise the report upon receipt of management responses and then report the findings to members.
Corporate common controls					
Asset Management	5	0.5	4.5	-	Audit fieldwork in respect of this review is scheduled to be undertaken in August 2011. A draft report will be produced for management consideration following completion of our fieldwork.
General Ledger and Budgetary Control	7	0	7	-	This review is scheduled to be undertaken in Quarter 3 of 2011/12.
Treasury Management	10	0	10	-	This review is scheduled to be undertaken in Quarter 2 of 2011/12.
Housing Benefits	5	0	5	-	We have agreed with Capita to undertake this piece of work in Quarter 3 of 2011/12.
Council Tax	10	0	10	-	We have agreed with Capita to undertake this piece of work in Quarter 2 of 2011/12.

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	Planned	Actual	Variation		
Corporate common controls (continued)					
Accounts Payable	15	0	15	-	This review is scheduled to be undertaken in Quarter 4 of 2011/12.
Accounts Receivable	15	0	15	-	This review is scheduled to be undertaken in Quarter 4 of 2011/12.
Payroll	8	0	8	-	This review is scheduled to be undertaken in Quarter 4 of 2011/12.
NNDR	5	0	5	-	We have agreed with Capita to undertake this piece of work in Quarter 4 of 2011/12.
Cash Collection and Banking	10	0	10	-	This review is scheduled to be undertaken in Quarter 4 of 2011/12.
Contingency for core systems work	5	0	5	-	Allowance for unforeseen changes to the planned core financial systems work.

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Other areas					
Counter Fraud (Including National Fraud Initiative)	15	4.5	10.5	-	<p>In October 2010 we submitted data to the Audit Commission in regards to the general category of NFI matches including housing benefits, payroll, creditors, market trader licences, insurance, licences to supply alcohol and taxi driver licences. The resulting matches were subsequently released to RBC in January 2011 and work is currently ongoing towards the investigation and follow-up of the resultant data matches by RBC officers.</p> <p>Following on from our report to members in June 2011 there has been some development in regards to the above mentioned NFI exercise. Errors in some of the original data submission by the Department for Work and Pensions resulted in changes to matches for the housing benefit and concessionary travel categories. We confirmed that of the 1401 matches 1040 have now been actioned including all high priority matches. There are 357 matches requiring further investigation and work with these is progressing well. To date there have no identified frauds although 15 errors have been identified in regards to concessionary travel passes and respective travel passes have subsequently been cancelled.</p> <p>With regards to the forthcoming NFI exercise relating to council tax records, the NFI key contact has been liaising with relevant officers within the Council to instigate the process for issuing fair processing notices. Action will then be taken to arrange the submission of council tax data in October 2011 and electoral roll data in December 2011 to the Audit Commission. The subsequent matches are due to be released in February 2012, when the process of investigating any matches will commence.</p>

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	Planned	Actual	Variation			
Other areas (continued)						
Follow up reviews	15	4	11	Provisional assurance		Licensing - A draft report has been issued for management consideration in respect of licensing.
				Substantial		Waste and recycling - This review is scheduled to be undertaken in Quarter 4 of 2011/12.
				-		CLAW financial controls - This review is scheduled to be undertaken in Quarter 3 of 2011/12.
				-		IT service management - This review is scheduled to be undertaken in Quarter 3 of 2011/12.
Contingency	10	0	10	-		Allowance for unforeseen changes to the annual internal audit plan.
Management of the audit service	30	12.5	17.5	N/A	N/A	This time relates to the day to day management of the Authority's audit plan including preparation and attendance at committee, liaison with senior management and the Council's external auditors and any ad-hoc advice and support to the Authority.
2011/12 days	260	72.5	187.5			

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	Planned	Actual	Variation		
2010/11 audits brought forward					
Community Leisure Association of Whitworth (CLAW) Financial Controls	0	0.5	(0.5)	-	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.
Waste and Recycling	0	2	(2)	Substantial Assurance	We spent two days in finalising the waste and recycling audit report. The findings from this review were previously reported to members in the 2010/11 Annual Report at the 15 June 2011 meeting of the Audit and Accounts Committee.
Cash Collection and Banking	0	1	(1)	Substantial Assurance	We spent one day in finalising the cash collection and banking audit report. The findings from this review were previously reported to members in the 2010/11 Annual Report at the 15 June 2011 meeting of the Audit and Accounts Committee.

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	Planned	Actual	Variation		
2010/11 audits brought forward (continued)					
Accounts Receivable	3.5	4.5	(1)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the Council's accounts receivable system 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>Two medium and two low priority recommendations were made following the last internal audit review of accounts receivable in April 2010. Two of these recommendations are now fully implemented and, whilst some progress has been made towards implementing the remaining two recommendations, further action is required relating to the Sundry Debt Management Policy sections on interest charges and accounting procedures for debts outstanding for over 180 days</p> <p>The Exchequer Services team is currently performing a review of the instalment process which will involve identifying and documenting the stages of the instalment process with a view to ensuring that instalment debts are managed and recovered in the most efficient and effective manner. We appreciate that instalment debts are redirected to the standard recovery route and as part of this process have been actively chased and recovered.</p>

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	Planned	Actual	Variation		
2010/11 audits brought forward (continued)					
Accounts Payable	4	5	(1)	<p>Substantial Assurance</p> <p>In our opinion the system of internal control over the Council's accounts receivable system 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>Adequate and effective systems and procedures have been formed and applied in the majority of areas, however, we noted that two of the recommendations made in the 2009/10 audit report have not been implemented. These recommendations are still applicable; consequently areas remain where improvements can be made to enhance the controls in place.</p> <p>In particular, current self authorisation limits for users within the Authority Financials purchasing module vary from £0 to £15,000. As invoices are now scanned to the creditor module and automatically matched to order and receipt details, there may be no segregation of duties within the accounts payable system prior to payment for purchases up to £15,000 in value. We acknowledge however, that the compensatory controls relating to prepayment report checks and authorisation of suppliers prior to set up on the system, reduce the inherent risks.</p> <p>The 2009/10 recommendation that a duplicate payments report is produced and reviewed on a regular basis so that potential duplicate transactions can be investigated has also not yet been implemented.</p>

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	Planned	Actual	Variation		
2010/11 audits brought forward (continued)					
NNDR	10	9	1	Substantial Assurance	<p>At present all empty properties are visited by the inspector twice a year. This procedure was appropriate when the majority of empty properties were exempt from NNDR.</p> <p>We noted that most empty NNDR properties within Rossendale were below the 2010/11 exemption limit of £18,000; however this limit was reduced to £2,600 for the 2011/12 tax year, and only two of the 249 properties that were empty at the time of the audit visit fell below this limit. As the majority of empty NNDR properties will now be liable to pay the full amount and empty property reliefs will only apply to new declarations of properties being empty, inspecting empty properties within their relief periods would be a better use of time and resources.</p> <p>An impact assessment will now be undertaken to consider the benefits of changing the inspection regime to focus on empty properties where payment is not being made and identify changes in liability before advanced recovery action takes place.</p>
				<p>In our opinion the system of internal control over the Council's NNDR system has adequate controls to achieve its control objectives and the system controls are generally operating effectively in the areas covered by this review.</p>	

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2010/11 audits brought forward (continued)					
Follow-ups	0	1	(1)	Substantial Assurance	Our audit testing confirmed that management have taken appropriate action in implementing recommendations made as part of our reviews of business continuity, leisure trust, planning and health and safety.
Procurement	3	1.5	1.5	-	Audit fieldwork in respect of our review of procurement was completed in August 2011 and a draft report is due to be issued imminently. Findings from this review will be reported to members upon finalisation of the report.
2010/11 audit days brought forward	20.5	24.5	(4)		
Total days used	280.5	97	183.5		

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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.