

**Rossendale Borough Council**

**Internal Audit Service**

**2012/13 financial year**

**Progress report**

**covering the period to 31 August 2012**





## **Matters arising from internal audit work completed during the period**

### **1 Introduction**

- 1.1 This report highlights key issues that the Audit and Accounts Committee should be aware of to fulfil its role of providing independent oversight of the adequacy of the council's internal control and risk management framework.
- 1.2 It summarises the work undertaken during the five months of the year to 31 August 2012 by the council's Internal Audit Service under the internal audit plan for 2012/13. The findings included in this report have been agreed with relevant directors and managers.
- 1.3 A full table of all the audit work planned for 2012/13 is included below, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have been deferred or removed from the plan, and where additional work has been included in the programme for the year.

### **2 Key issues**

- 2.1 From the work undertaken during the period, no significant weaknesses have been identified that would have a material impact upon the Council's internal control environment.

### **3 Internal audit work undertaken**

- 3.1 Work carried out during this period was in accordance with the agreed audit plan. Details of the progress to date, including assurance provided and key issues identified for each of the areas completed to date, are set out in the table below.
- 3.2 Reviews relating to general ledger and budget monitoring and follow ups that were ongoing as at 31 March 2012 have now also been finalised and are also included in the table below.
- 3.3 To 31 August 2012, 39 days have been spent in delivering the 2012/13 audit plan. Work is either ongoing or has been programmed over the remainder of the year to ensure that the balance of the 2012/13 plan will be completed. Thirty-nine days equates to 17% of the total audit activity of 225 days planned for the year.
- 3.4 In addition, 20 days have been spent during 2011/12 in finalising the audits that were ongoing at 31 March 2012. The unused allocations brought forward from the preceding year are shown in the summary table.

## Summary of findings

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

- 3.5 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, 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.
- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 ***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.
- 3.10 ***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**

Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<b>Cross-cutting risks</b>						
Risk management	An assessment of the risk management arrangements made in practice by examining a snapshot of senior management discussions and resulting actions, and a review of the risk register as a practical tool in effecting change.	5	4.5	The fieldwork is now complete and the audit report is being drafted.	-	-
Health and safety	A review of the arrangements in place to ensure that all core service requirements and relevant legislation are being adhered to. In particular, examination of the relevant policies and procedures, review and communication arrangements, the effectiveness of inspection programmes for undertaking risk assessments, and the logging, reporting, and investigation processes relating to accidents and dangerous occurrences.	15	2.5	Terms of Reference have been produced and shared with respective managers. Fieldwork is due to begin in September 2012.	-	-
Governance – public consultations	A review of the robustness of consultation processes to stand up to any potential challenge and scrutiny. Ongoing control advice and support.	20	0	Initial contact has been made with the Chief Executive regarding the scoping of the audit review.	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<b>Service specific controls</b>						
ICT – Public Sector Network/ Government Connect	A review of project management controls established to maintain compliance with the latest version of the code of connection and the processes and procedures established to address any identified network vulnerabilities.	20	0	This review is scheduled to begin in Quarter 4 of 2012/13.	-	-
<b>Corporate common controls</b>						
General ledger/ budgetary control	An assessment of the effectiveness of key controls surrounding the council's general ledger and budget monitoring system, incorporating a follow-up review of previous audit recommendations.	8	0	This review is scheduled to begin in Quarter 3.	-	-
Treasury management	A review of the adequacy and effectiveness of controls in place to ensure investments and borrowing are in accordance with legislation and best practice guidance.	8	0	This review is scheduled to begin in Quarter 3.	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Housing Benefits	A review of procedures that relate to the control and administration of the housing and council tax benefits system, including follow up of recommendations raised in our previous review of this area in 2011/12.	8	0	This review is scheduled to begin in Quarter 3.	-	-
Asset management	A review of the council's property asset management arrangements to provide assurance that these assets are accounted for and controlled adequately and effectively. This will include an assessment of the accuracy of property asset records, maintenance arrangements, commercial income and management of empty properties.	10	0	This review is scheduled to begin in Quarter 3.	-	-
Council Tax	A review of the adequacy and effectiveness of key controls and procedures in place for the timely and accurate collection and recording of income due to the council in respect of council tax, incorporating follow up of recommendations raised in our previous review of this area in 2011/12.	8	0	This review is scheduled to begin in Quarter 3.	-	-

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Accounts Payable	Following the detailed review over the adequacy of the accounts payable procedures and the effectiveness of controls around the ordering and payment processes in 2011/12, this year we propose to limit audit testing to the key controls and follow up the recommendations from the previous review.	10	0	This review is scheduled to begin in Quarter 4.	-	-
Accounts Receivable	Following the detailed review over the adequacy of the accounts receivable procedures and the effectiveness of controls around the invoicing and debt management processes in 2011/12, this year we propose to limit audit testing to the key controls and follow up the recommendations from the previous review.	10	0	This review is scheduled to begin in Quarter 4.	-	-
Payroll	A review to consider the effectiveness of key controls and procedures in place within the payroll function to ensure the timely and accurate payment of wages and salaries to employees.	10	0	This review is scheduled to begin in Quarter 4.	-	-



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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
NNDR	A review of procedures that relate to the control and administration of the National Non Domestic Rates (NNDR) system at the Council including follow up of previous recommendations.	8	0	This review is scheduled to begin in Quarter 4.	-	-
Income collection and banking	Our review of income collection and banking in 2011/12 involved an assessment of controls with respect to Rossendale markets. In 2012/13 we will select alternative service areas to consider the adequacy and effectiveness controls and processing procedures in relation to the collection and banking of income. The review will ensure that all money paid to the council is promptly and correctly accounted for. The areas subject to review will be discussed and agreed with management as part of the audit planning process.	10	0	This review is scheduled to begin in Quarter 3.	-	-
Systems work contingency	A small provision has been made to respond to unforeseen issues should they arise.	5	0	-	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<b>Other areas</b>						
Counter fraud/ National Fraud Initiative	This is a provision for investigatory work and will also include coordinating the council's investigations of data identified by the National Fraud Initiative.	25	7	<p>Following the submission of council tax data in October 2011 and subsequently the electoral roll data in January 2012, data matches relating to the council tax records (Single Person Discount (SPD) and rising 18s) were released in February 2012. The process of investigating the reported data matches is currently underway and progress will be monitored during 2012/13.</p> <p>The NFI key contact is currently arranging for the submission of data relating to the general category of matches required in October 2012. These include housing benefits, payroll, creditors, market trader licences, insurance, licences to supply alcohol and taxi driver licences. The resulting matches will be released to RBC in January 2013 for investigation.</p>	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<b>Follow-up reviews:</b> Contract management Elections Corporate governance Health partnerships Information governance	Where not undertaken elsewhere within planned audit coverage, resources have been earmarked to ensure that all previous reviews are followed up and the actions previously agreed with management are implemented.	15	8	<b>Contract management</b> – Although two of the recommendations raised previously have been implemented, the remaining recommendation is expected to be implemented in October 2012.	Original assurance – <b>Substantial</b>	The remaining recommendation, regarding the reporting of the benefit claims accuracy indicator, will be implemented at the next meeting of the Strategic Governance Board in October.
				<b>Elections</b> – The four recommendations raised in our previous review have been implemented.	Original assurance – <b>Substantial</b>	No further action required.
				<b>Corporate governance</b> - The six recommendations raised in our previous review have been implemented.	Original assurance – <b>Substantial</b>	No further action required.
				<b>Health partnerships</b> – This review is scheduled to be undertaken in Quarter 4.	Original assurance – <b>Limited</b>	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Follow-ups (continued)				<b>Information governance –</b> This review is scheduled to be undertaken in Quarter 4.	Original assurance - <b>Limited</b>	-
<b>Management of the Audit Service</b>	This time relates to other management and tasks in support of the internal audit service to the Authority, including liaison with the senior management team and the council's external auditors, central reporting (annual and periodic progress) and attendance, support, and reporting to the Audit and Accounts Committee as required.	30	17	-	-	-
<b>TOTAL 2012/13</b>		225	39			

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Audit review 2011/12 brought forward	Audit scope	Planned audit days	Actual audit days	Findings/ comment	Assurance	Response
General ledger	This review assessed the effectiveness of key controls surrounding the council's general ledger and budget monitoring system including confirmation that the controls surrounding the Storage Area Network implemented in 2010 continued to operate effectively. We also performed a follow-up review of previous audit recommendations.	6	9	Adequate and effective systems and procedures have been designed and are operating effectively in the areas reviewed. We noted however, that the three recommendations raised in our 2010/11 review had not been fully implemented and further action was required in respect of these.	Substantial	Spot checking of journal explanations to start with immediate effect (low risk) Some code revision undertaken, and ongoing monitoring of correction journals (low risk) Report to be obtained from procurement system of budget overrides by December 2012 (medium risk)
Accounts receivable	A review of the adequacy and effectiveness of the key accounts receivable procedures considered whether these ensure that the invoice raising and debt management processes are valid, accurate, and timely.	3.5	1	The findings from this review were previously reported to members in the 2011/12 Annual Report at the 20 June 2012 meeting of the Audit and Accounts Committee.	Substantial	-
Accounts payable	A review of the adequacy and effectiveness of the accounts payable procedures considered whether these ensure that the ordering and payment processes are valid, accurate, and timely.	2	0.5	The findings from this review were previously reported to members in the 2011/12 Annual Report at the 20 June 2012 meeting of the Audit and Accounts Committee.	Substantial	-

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<b>Audit review 2011/12 brought forward</b>	<b>Audit scope</b>	<b>Planned audit days</b>	<b>Actual audit days</b>	<b>Findings/ comment</b>	<b>Assurance</b>	<b>Response</b>
NNDR	We undertook a review of the key procedures within the NNDR system and followed up the recommendations raised as part of our previous review in 2010/11.	4	7	The findings from this review were previously reported to members in the 2011/12 Annual Report at the 20 June 2012 meeting of the Audit and Accounts Committee.	Substantial	-

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Audit review 2011/12 brought forward	Audit scope	Planned audit days	Actual audit days	Findings/ comment	Assurance	Response
Follow-ups	Where not undertaken elsewhere within planned audit coverage, resources were earmarked to ensure that all previous reviews were followed up and the actions previously agreed with management were implemented.	3	2.5	<p><b>IT Service management:</b> Of the seven recommendations raised, five had been implemented, one had since been rejected because of budget reductions and one is on hold due to ICT resource capacity constraints but management remain committed to address the recommendation.</p> <p>An ICT Steering Group has been set up to effectively manage service provision and support service areas during contract negotiations within new contracts negotiated. This will also provide a forum for managing business relationships with service areas.</p>	Original assurance - <b>Substantial</b>	<p>A recommendation on document standards was agreed but has not been implemented because the planned deployment of Microsoft's Sharepoint as an enterprise resource planning application has been deferred due to resource constraints.</p> <p>A recommendation on annual tests to recover key applications and data from the disaster recovery site was rejected due to current budget reductions although a compensating control is the deployment of VMware and Site Recovery Manager which provides assurances on the effectiveness of disaster recovery provision through the implementation and testing of VMware SRM recovery plans.</p>

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Audit review 2011/12 brought forward	Audit scope	Planned audit days	Actual audit days	Findings/ comment	Assurance	Response
Follow-ups (continued)				<p><b>Waste and recycling:</b>            We confirmed that the three recommendations raised as part of our 2010/11 review of waste and recycling have now been fully implemented.            Appropriate action has been taken with regard to each recommendation in the June 2011 report to address the issues raised relating to missed bin collections and household waste recycling indicators.</p>	Original assurance - <b>Substantial</b>	No further action required.
<b>TOTAL 2011/12</b>		<b>18.5</b>	<b>20</b>			



## 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 designed to meet the service objectives and controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, 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/ have resulted in failure to achieve the service objectives.