

**Rossendale Borough Council**

**Internal Audit Service**

**2012/13 Financial year**

**Progress report**

**covering the period to 31 January 2013**





## **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 ten months of the year to 31 January 2013 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 provided 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 on page 3.
- 3.2 To 31 January 2013, 159 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. One hundred and fifty nine days equates to 70% of the total audit activity of 225 days planned for the year.
- 3.3 In addition, 20 days have been spent during 2012/13 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.
- 3.4 We have recently met with the external audit team from Grant Thornton to discuss our planned work and their requirements. Our work has been scheduled to allow the external auditors to maximise the reliance they can place on it. We have also agreed to share the terms of reference relating to our key financial system work with the external auditors which will enable us to adapt the scope of our reviews to fit in with the work of the external auditors.
- 3.5 Following discussions at the last Audit and Accounts Committee meeting a Recommendations Log has been circulated to members. This log will be reported with our annual report at the next Audit and Accounts Committee

meeting. Members have also received details of the Audit Commission's review of the internal audit service which concluded that:

*'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.*

*Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor.'*

## **Summary of findings**

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

- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 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.
- 3.10 **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.
- 3.11 **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	8	Our review of the Risk Management Strategy identified some minor anomalies and areas of change which could be updated and more accurately reflected in the strategy.	Substantial	Recommended action agreed.
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	14	Fieldwork in respect of this review is now complete and a draft report has been issued for management consideration in February 2013. We will report the findings to Members upon finalisation of the report.	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<b>Cross-cutting risks</b>						
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	10	Our fieldwork in respect of this review is ongoing. We have completed our assessment of two key consultations surrounding accommodation and council tax benefit. The Swimming Pool consultation is due to come to a conclusion in June 2013. We have provided feedback from our review of the completed consultations to the Chief Executive.	-	-
<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	10	The fieldwork in respect of this review is in progress and ongoing.	-	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
<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	5	The fieldwork in respect of this review is in process and ongoing.	-	-
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	10	<p>The Council adopted the CIPFA Code of Practice on Treasury Management in February 2010. However, the Council does not have a specific treasury management policy statement in the form indicated in the Code.</p> <p>The Treasury Management Practice state that the Audit and Accounts Committee is responsible for reviewing the treasury management policy and procedures and making recommendations to the responsible body, but this responsibility is not referred to in the Audit and Accounts Committee's Terms of Reference. "Scrutiny" is, in fact, done by Cabinet and Full Council and then monitored by Cabinet.</p>	Substantial	<p>This is being redressed in the TMSS and TMPs going to Members in Feb 2013.</p> <p>This is being redressed in the Treasury Management Strategy and Treasury Management Practices submitted to Members in February 2013.</p>

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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	8	In our opinion the system of internal control over this area is adequately designed to meet the Council's objectives, and controls are being applied consistently.	Full	-
Asset management including Income Collection and Banking	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.	20	23	We have completed our fieldwork in respect of this review. A draft report was issued for management consideration in February 2013. We will report the findings to members upon finalisation of the report.	-	-



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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
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	9	<p>One write off for £6,836 had been processed in the Northgate system without the required prior approval of Cabinet, however, the amount has since been put back on account for collection due to the fall through of a bankruptcy petition. The non Cabinet approval of the write off had already been identified by the Revenues Manager via a quarterly monitoring report as a process error.</p> <p>It is acknowledged that the Inspections Officer was absent from work at the time of the audit review, and it is accepted that the visitations have been undertaken broadly in line with the schedule.</p>	Substantial	<p>The staff involved in processing write offs have been reminded by the Revenues Manager of the requirements of the debt management policy in respect of write offs requiring Cabinet approval.</p> <p>As per stated in Appendix B (recommendation 2), a rota has been established to ensure visitations continue in the event of any absence of key staff. Furthermore, the Services Assurance Officer continues to monitor the programme of visitations for any significant slippage.</p>

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
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	4	Audit fieldwork in respect of this review is in progress and ongoing.	-	-
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	3	Audit fieldwork in respect of this review is in progress and ongoing.	-	-
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	4	Audit fieldwork in respect of this review is in progress and ongoing.	-	-

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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.	-	-
Systems work contingency	A small provision has been made to respond to unforeseen issues should they arise.	5	0	-	-	-
<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	13	The NFI key contact arranged 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 were released in January 2013 for investigation. The investigation and follow up of the data matches is being overseen by the NFI key contact.	-	-

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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> – The findings from this review were previously reported to members in the progress report at the 19 September 2012 meeting of the Audit and Accounts Committee.	Original assurance – <b>Substantial</b>	-
				<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	30	-	-	-
<b>TOTAL 2012/13</b>		225	159			

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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	The findings from this review were previously reported to members in the progress report at the 19 September 2012 meeting of the Audit and Accounts Committee.	Substantial	-
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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Audit review 2011/12 brought forward	Audit scope	Planned audit days	Actual audit days	Findings/ comment	Assurance	Response
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	-
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	<b>IT Service management:</b> The findings from this review were previously reported to members in the progress report at the 19 September 2012 meeting of the Audit and Accounts Committee.	Original assurance - <b>Substantial</b>	-
				<b>Waste and recycling:</b> The findings from this review were previously reported to members in the progress report at the 19 September 2012 meeting of the Audit and Accounts Committee.	Original assurance - <b>Substantial</b>	-
<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.