

**Rossendale Borough Council  
Internal Audit Service**

**Annual report of the Head of Internal Audit  
for the year ended 31 March 2013**

**June 2013**





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## **1. Introduction**

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service has undertaken during 2012/13. It sets out the key themes arising in relation to internal control, governance and risk management across the council.

### **The role of internal audit**

- 1.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) require the chief internal auditor to provide an opinion on the council's control environment and 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 2012/13.
- 1.3 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**

- 1.4 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.
- 1.5 Summaries of the key areas of our work have been reported to the Audit and Accounts Committee as they have been completed.

### **Acknowledgements**

- 1.6 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  
Chief Internal Auditor  
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 council's internal control environment, risk management process and corporate governance, taken as a whole are adequate and generally effective. Consequently, we are able to provide **substantial** assurance over the council's internal control environment. Definitions of the assurance levels used are attached as Appendix 2.
- 2.2 I have however identified weaknesses in control from our property asset management audit regarding the management of the council's estate and recovery of overdue property debt.
- 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 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 should consider the issues identified above surrounding property asset management as this may impact on the council's Annual Governance Statement.

### **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 2013/14 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 further action required to achieve 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. Furthermore, a detailed analysis of internal audit assurance assignments for 2012/13 has been produced showing a breakdown of assurances and recommendations can be seen at Appendix 3.

Assignments relating to:	Assurance				
	Full	Substantial	Limited	Nil	In progress
<b>2012/13 reviews</b>					
Key financial systems	3	5	1	0	0
Focussed reviews	0	3	0	0	1
<b>2011/12 reviews completed in 2012/13</b>					
Key financial systems	0	4	0	0	-
Focussed reviews	0	0	0	0	-
<b>Total assignments</b>	<b>3 (18%)</b>	<b>12 (70%)</b>	<b>1 (6%)</b>	<b>0 (0%)</b>	<b>1 (6%)</b>

### 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 2012/13 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 this report.

#### *Core Financial Systems*

3.2 Our work to date on the council's core financial systems (payroll, debtors, creditors, general ledger, income collection 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. We made two high priority recommendations as part of our work relating to property asset management and the collection of rental income, further details relating to this are provided below.

3.3 From our assessment of previous audit recommendations we also found that action is being taken towards actioning recommendations raised in the 2011/12 reviews.

3.4 Our review of **property asset management** noted that there is, in particular, a lack of clarity over responsibilities and the procedures that should be followed to:

- Keep appropriate documentation for each letting, ensuring that arrangements are made to collect due payments from tenants;
- Ensure that appropriate action is taken to recover overdue rent or repossess properties in a timely manner;

- Find new tenants for vacant units and plots; and
  - Monitoring usage of the estate.
- 3.5 Budget monitoring shows that there is little variance between the budgeted and forecasted rental income for 2012/13. Audit testing identified delays with initiating and pursuing the debt recovery process with regard to unpaid rents, partly due to the need to prioritise legal resources.
- 3.6 As a result, the audit work we have undertaken allows us to provide limited assurance over the controls in place in respect of property asset management and income collection.
- 3.7 The system of internal control over **accounts payable** is adequately designed to meet the council's objectives and we have provided substantial assurance. However, two of the three recommendations previously reported in June 2012 following our last review of the accounts payable system have not been implemented. These relate to the use of "confirmation" orders and action taken to identify potential duplicate payments.
- 3.8 Audit testing of a sample of payments identified that 14 out of 21 orders were raised after or on the date of the invoice. It is acknowledged that there may be valid reasons in some cases why orders cannot be raised before invoices are received, however there is a risk that the council may be unable to quantify its committed costs.
- 3.9 In order to identify potential duplicate payments the Finance Manager has produced a spreadsheet which shows payments sorted by creditor. There is however no checking of this report to identify any matching payments to a supplier with the same invoice number. Since our audit there has been some additional guidance and training for Exchequer Service staff particularly in relation to filtering and reviewing the report which should make the checking for duplicate payments simpler.
- 3.10 In our opinion the system of internal control over the **National Non Domestic Rates (NNDR)** system at the Council is generally adequate and effective although there are areas where improvements could be made to the existing system. The audit work we have undertaken allows us to provide substantial assurance over the NNDR system.
- 3.11 The council uses a basic facility through Experian to identify absconded rate payers, however, there are more comprehensive facilities available through Capita or even directly through Experian or other private companies to locate such persons. We have recommended that the council should consider additional facilities to trace individuals where it is appropriate.



- 3.12 The business rates team has kept up to date with progress locally and nationally in respect of a number of rate avoidance schemes however these need to be continually monitored.
- 3.13 We worked closely with the external auditors in 2011/12 to structure our work to comply with their requirements and this approach has once again been adopted during 2012/13. Our change in approach to the core financial systems, which now provides an overview of each system and sample testing in accordance with the external auditors requirements provides assurance that we have completed an appropriate level of systems documentation and audit testing for each core financial system.

#### *Focussed Reviews*

- 3.14 The audit work we have undertaken allows us to provide **substantial assurance** over the systems and processes in place relating to the council's **health and safety** arrangements. We have identified a number of health and safety policies and procedures that require updating to reflect changes in practices.
- 3.15 A risk-based approach is used to develop the schedule of health and safety audits, however, it is not clear on what basis the frequency of audits is determined and when the reviews were last undertaken. Completed health and safety audit reports are issued to the relevant Heads of Service and Directors to facilitate implementation and follow-up of the actions required, however the overall programme of health and safety audits, and of any remedial action required, is not monitored effectively at a senior level.

#### **Fraud/special investigations**

- 3.16 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)**

- 3.17 We support the Audit Commission's work proactively to identify potentially fraudulent transactions, known as the National Fraud Initiative (NFI).
- 3.18 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. This exercise has been extended to include insurance claims, personal licences to supply alcohol and concessionary travel passes.
- 3.19 The processing of data by the Audit Commission in a data matching exercise is carried out with statutory authority. It does not require the consent of the individuals concerned under the Data Protection Act 1998.

However, we as a public body holding personal data have a duty to inform those individuals that their data will be used for data matching purposes.

- 3.20 In October 2012 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 2013 and these were as follows:

<u>Rossendale Borough Council</u> <u>2012/13 NFI Exercise - Analysis of reports/ matches</u>		
<u>Category of data</u>	<u>No. of match reports</u>	<u>No. of matches</u>
Housing Benefit	27	806
Payroll	3	60
Insurance Claimants	2	8
Creditors	5	60
Procurement	3	239
Taxi Driver licences	2	4
Total	42	1177

- 3.21 The number of matches is in line with previous years. The council is currently investigating these matches and the results will be reported to a future Audit and Accounts Committee meeting.

#### **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 Within this report we have raised issues concerning the need to establish clear lines of responsibility in relation to the processes for the management of the council's property assets as well as action to recover overdue debt. Whilst management are taking action towards these resolving these matters we feel that these 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 2012/13**

- 5.2 Work carried out during 2012/13 was in accordance with the audit plan presented and approved by Audit and Accounts Committee on 10 June 2012. 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 227 audit days against planned input of 225 days. This includes 21 days spent towards completing ongoing audit reviews as at 31 March 2012 which have been previously finalised and reported to the Audit and Accounts Committee.
- 5.4 This work has been undertaken with regular liaison with the council's external auditors to minimise any duplication and to allow the external auditors to place reliance on our work wherever possible.
- 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 2013/14 work.

##### **Internal audit performance**

- 5.6 In July 2012 the Audit Commission performed an assessment of the Internal Audit Service against the CIPFA Code of Practice for Internal

Audit in Local Government in the UK to assess compliance with this Code. This review concluded that the Internal Audit Service meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government. The report went on to say that the Internal Audit Service 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.

- 5.7 We will continue to demonstrate compliance with the CIPFA Code of Practice for Internal Audit in Local Government and make the necessary improvements where appropriate.

## 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 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.
- 6.3 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.
- 6.4 **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.
- 6.5 **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 (Previously reported to the Audit and Accounts Committee)	An assessment of the risk management arrangements. Including 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	15.5	Fieldwork in respect of this review is now complete and a draft report was issued for management consideration in April 2013. Issues were identified in relation to: <ul style="list-style-type: none"> <li>• The lack of evidence to support the risk based audit programme</li> <li>• There is no formal process for monitoring the audit programme.</li> <li>• Detailed procedures need to be kept up to date and communicated to staff.</li> </ul>	Substantial	-

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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	15	Our fieldwork in respect of this review is now complete and a draft report is due to be issued for management consideration.  Whilst overall our assessment of the three consultations reviewed has identified areas where the processes and arrangements have worked effectively, improvements have also been recommended.	Substantial	-
<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	13.5	The fieldwork has been completed and the audit is undergoing our quality assurance process. A draft report will be issued for management consideration in due course. We will subsequently report the findings of this review to members.	-	

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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	13.5	The outstanding recommendations from our previous audits had been implemented or the issues raised have been addressed through alternative controls.	Full	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Treasury management (Previously reported to the Audit and Accounts Committee)	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	11	<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 (Previously reported to the Audit and Accounts Committee)	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	19.5	<p>This report was finalised in June 2013.</p> <p>Our review noted that there is, in particular, a lack of clarity over responsibilities and the procedures that should be followed to effectively manage the council's property assets and ensure overdue debts is recovered.</p> <p>In addition, Council asset records are held on the Civica System although these primarily enable the accurate recording of asset information for the Balance Sheet but they are less useful for property/estate management.</p>	Limited	<p>Noted and agreed. The process suggested by the Finance Manager will be developed with links to standard documentation and be subject to ongoing change as necessary. Procedures will be communicated to all responsible staff.</p> <p>Civica should be the primary source for all asset information. This development issue will be taken up through the Civica user group.</p>

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Council Tax (Previously reported to the Audit and Accounts Committee)	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	9.5	<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	15	<p>A draft report was issued for management consideration in May 2013 and we are awaiting a response to finalise the report.</p> <p>Two of the three recommendations previously reported in June 2012 following our last review of the accounts payable system have not been implemented. These relate to the use of "confirmation" orders and action taken to identify potential duplicate payments.</p>	Substantial	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
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	<p>A draft report was issued for management consideration in June 2013 and we are awaiting a response to finalise the report. We have raised recommendations relating to:</p> <ul style="list-style-type: none"> <li>• Implementation of audit recommendations raised in 2011/12 relating to the Debt Management Policy;</li> <li>• Recovery of licensing debts where the Council has been previously unable to take any meaningful action; and</li> <li>• Limited progress with recovery of debts currently with the Legal Services team.</li> </ul>	Substantial	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
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	12	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. The only recommendation made relates to the evidencing of checks carried out on the accuracy of the payroll run prior to payments being made.	Full	Recommendation agreed.
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	<p>A draft report was issued for management consideration in June 2013 and we are awaiting a response to finalise the report. We have raised issues concerning:</p> <ul style="list-style-type: none"> <li>• The recovery of outstanding debts for individuals that have absconded;</li> <li>• Ongoing monitoring of rate avoidance schemes;</li> <li>• Counter signature of bad debt write offs by the Head of Finance and Property.</li> </ul>	Substantial	-

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Audit review 2012/13	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Systems work contingency	A small provision has been made to respond to unforeseen issues should they arise.	5	5	Contingency used towards completion of additional work relating to our review of Asset Management and Income Collection and Banking.	-	-
<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	16	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	9.5	<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.

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<b>Audit review 2012/13</b>	<b>Audit scope</b>	<b>Planned audit days</b>	<b>Actual audit days</b>	<b>Findings/ comments</b>	<b>Assurance</b>	<b>Management response</b>
				<b>Health partnerships</b> – This review will be undertaken in 2013/14.	Original assurance – <b>Limited</b>	-
				<b>Information governance</b> – This review has been completed and a draft report was issued for management consideration in June 2013. We will report the findings from this review to members upon finalisation of the report.	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 council, 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	32	-	-	-
<b>TOTAL 2012/13</b>		225	206			



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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	9.5	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	-

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Audit review 2011/12 brought forward	Audit scope	Planned audit days	Actual audit days	Findings/ comment	Assurance	Response
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	-
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	7.5	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
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> 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.</p>	Original assurance - <b>Substantial</b>	-
				<p><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.</p>	Original assurance - <b>Substantial</b>	-
<b>TOTAL 2011/12</b>		<b>18.5</b>	<b>21</b>			

## **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.*

## Detailed analysis of internal audit assurance assignments

### 2012/13 audit plan

Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
<b>Corporate controls and cross-service issues</b>									
<b>Corporate Governance</b>									
Public Consultations		✓			0	0	3	2	5
<b>Risk Management</b>									
Risk Management		✓			0	0	0	1	1
<b>Regulatory</b>									
Health and Safety		✓			0	0	5	3	8
<b>Corporate common controls</b>									
<b>Financial controls</b>									
General ledger	✓				0	0	0	0	0
Treasury management		✓			0	0	0	2	2
Housing Benefits	✓				0	0	0	0	0
Council Tax		✓			0	0	0	0	0
Accounts payable		✓			0	0	2	0	2
Accounts receivable		✓			0	0	3	0	3
Payroll	✓				0	0	0	1	1
NNDR		✓			0	0	2	1	3
Asset management & Income collection and banking			✓		0	2	12	5	19

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Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
<b>Service-specific controls</b>									
<b>Information and Communications Technology (ICT)</b>									
Government Connect Code of Connection and Penetration Testing Project Management					0	0	0	0	0
<b>Corporate Governance</b>									
Follow-up review	The 6 recommendations previously agreed have been fully implemented.								
<b>Partnerships</b>									
Follow up review – Health	We will assess progress with the 8 recommendations raised in our review in 2013/14.								
Follow-up review – Communities	No recommendations were made in this area.								
<b>Information Governance</b>									
Follow-up review	Work is ongoing with verifying the progress made in implementing the 8 recommendations previously made.								
<b>Elections</b>									
Follow-up review	The 4 recommendations previously agreed have been fully implemented.								
<b>Contract Management – Service Assurance Team</b>									
Follow-up review	Of the three recommendations raised two were implemented at the time of our review. The remaining recommendation was implemented in October 2012 and we have been able to confirm this in February 2013.								
<b>Total of all 2012/13 assignments</b>	<b>3</b> 25%	<b>8</b> 67%	<b>1</b> 8%	<b>0</b> 0%	<b>0</b> 0%	<b>2</b> 5%	<b>27</b> 61%	<b>15</b> 34%	<b>44</b> 100%