

Subject:	Internal Audit Progress Report	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	18 March 2014
Report of:	Head of Internal Audit	Portfolio Holder:	Finance and Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Community Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: No	Attached:	No
Contact Officer:	Ian Rushworth Audit Manager	Telephone:	01772 534779
Email:	ian.rushworth@lancashire.gov.uk		

1.	RECOMMENDATION(S)
1.1	The Committee is asked to consider the internal audit progress report for the period to 31 January 2014.

2. PURPOSE OF REPORT

2.1 To present the internal audit progress report covering the period to 31 January 2014.

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
- **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition

4. RISK ASSESSMENT IMPLICATIONS

4.1 This report is provided for information and to support the Audit and Accounts Committee's role in relation to risk management.

5. BACKGROUND AND OPTIONS

5.1 In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the internal audit service, and to review internal audit reports, the Committee is asked to consider the assurance provided by the Internal Audit Service and the related audit inputs.

5.2 The report, at Appendix A, provides a summary of internal audit activity undertaken in the 2013/14 financial year to 31 January 2014.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Any financial implications are commented upon in the report.

7. MONITORING OFFICER

7.1 Any legal implications are commented upon in the report.

8. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

8.1 No Human Resource implications.

9. CONSULTATION CARRIED OUT

9.1 Reported findings have been discussed and agreed, including management responses to the recommendations, with respective service managers and heads of service prior to reporting.

10. CONCLUSION

10.1 The audit programme is progressing in line with the plan.

No background papers

Rossendale Borough Council

Internal Audit Service

2013/14 Financial year

Progress report

covering the period to 31 January 2014



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 10 months of the year to 31 January 2014 by the council's Internal Audit Service under the internal audit plan for 2013/14. The findings included in this report have been agreed with the relevant directors and managers.
- 1.3 A full table of all the audit work planned for 2013/14 is provided on page 4, 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 controls are generally operating well. We have however identified a number of significant weaknesses that could have an impact upon the Council's internal control environment. These are outlined in the paragraphs below.
- 2.2 In respect of our review of **treasury management** we were only able to provide **limited assurance** over the adequacy and effectiveness of the controls in place. The treasury management system relies upon a small number of key controls and our review identified weaknesses in respect of two of these key controls. Firstly, we identified one investment, which resulted in the amount placed with one institution exceeding the maximum limits although this position was resolved following the withdrawal of the £2m investment in October 2013 and this was subsequently reported to members and rectified in November 2013. This could potentially have led to financial loss for the Council in the event of a banking collapse although this risk is limited due to the Council's investment policies. Secondly, there is no periodic check to confirm that interest has been correctly paid potentially resulting in underpayments. Our sample testing identified queries relating to the calculation of interest payments which council officers have subsequently investigated and reconciled. The daily banking spreadsheet maintained by the Exchequer Manager has been amended to calculate the daily interest and this is reconciled to actual receipts.
- 2.3 Our review of **Planning and Development Control** included the English Heritage funding arrangements and the management of S106 Agreements. Whilst we were able to provide **substantial assurance** around the general planning controls as these were generally adequate and effective, we were only able to provide **limited assurance** over S106 Agreements and English Heritage funding. Arrangements around the monitoring of S106 Agreements had only been properly formalised at the October 2013 quarterly meeting of the group. The Council also needs to establish a more accurate process to confirm occupation of new houses to trigger S106 payments due as the

existing system is based on estimates. Ineffective monitoring of S106 Agreements may result in failure to collect or expend funds in accordance with the established agreements potentially resulting in clawback. With regards to the English Heritage funding the Conservation Strategy, which was approved by Cabinet in 2010, contains actions that are no longer applicable and, furthermore, there has been no reporting of progress against the Strategy to English Heritage which may result in reputational damage for the Council.

- 2.4 Our review of **Government Connect Code of Connection and Penetration Testing** involved analysing the Council's IT Health Check of the Information Security/Information Technology infrastructure. This IT Health Check identified a vulnerability relating to the outdated Wired Equivalent Privacy (WEP) protocols which enabled the consultant to crack WEP protocols and gain access to the internal network. This meant there was a risk of unapproved access to the Council's network. We were therefore only able to provide **limited assurance** over this area. We have confirmed however that both the RBCAP network and the public_access network have since been withdrawn and this was verified by an external consultant from Sapphire Protect in September 2013. The Government Connect Public Services Network code of connection places greater emphasis on the management of risks however, our review of documentation was unable to obtain sufficient evidence that these risks are being effectively identified, managed and mitigated. This audit formed part of our 2012/13 audit plan but was only finalised after the September 2013 audit committee meeting.

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 4.
- 3.2 To 31 January 2014, 125.5 days have been spent in delivering the 2013/14 audit plan. Work is either ongoing or has been programmed over the remainder of the year to ensure that the balance of the 2013/14 plan will be completed. 125.5 days equates to 56% of the total audit activity of 225 days planned for the year.
- 3.3 In addition, 23 days have been spent during 2013/14 in finalising the audits that were ongoing at 31 March 2013.
- 3.4 We have continued to liaise 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 shared the terms of reference relating to our key financial system work with the external auditors which has enabled us to adapt the scope of our reviews to fit in with the work of the external auditors.

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 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.
- 3.7 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.
- 3.8 ***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.
- 3.9 ***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 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate controls and cross-service issues						
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	6	Our audit fieldwork in respect of this review is complete and a report has been drafted which is due to be issued for management consideration. We will report the findings of this review in due course.	-	-

Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate controls and cross-service issues (contd)						
Planning	We are proposing to perform an audit which will cover the planning application process as well as the specific risks referred to on the council's risk register relating to English Heritage funding and the potential reduction of development control income.	25	24	Improvements are necessary around the monitoring of S106 Agreements. Specifically the timescales for completion of actions should be included in the quarterly monitoring meetings notes and the Council needs to develop a more accurate process to confirm occupation of new houses to instigate an invoice to developers. A reconciliation should also be performed of records within Finance to the S106 database. The Conservation Strategy approved by Cabinet in 2010 contains actions that are no longer applicable and this is in need of review. Furthermore, there has been no reporting to English Heritage of progress with the agreed actions which may result in reputational damage for the Council.	Substantial (Planning and Development Control) Limited (English Heritage funding and S106 Agreements)	Action is already being taken towards formalising and improving the effectiveness of the quarterly monitoring meetings. A process for regularly checking progress with developments will be put in place. Enquiries have been made with using the Council Tax system for this purpose. Records will be subject to reconciliation and review and will be kept up to date on the database going forward. The council is undertaking a review of the Conservation Strategy and this will be subsequently agreed with English Heritage. Key Contact – Planning Manager

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate controls and cross-service issues						
Public consultations – Forward planning	A review of the robustness of consultation processes in respect of the Site Allocation Plan and Statement of Community Involvement (SCI) to stand up to any potential challenge and scrutiny.	5	0.5	We have agreed, in consultation with management, that this review will be deferred to 2014/15 although a review of the existing Statement of Community Involvement will be undertaken as part of our 2013/14 audit plan.	-	-
Service specific controls						
Business continuity (IT and non IT controls)	A review of the business continuity arrangements to effectively manage the specific risk of loss of staff knowledge, as per the risk register.	20	1	Discussions are ongoing with management to consider the scope and timescales for this review. The agreed approach will be reported to members in due course.	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
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 and transactions relating to Rossendale Leisure Trust.	10	7.5	<p>The fieldwork in respect of this review is now complete and the audit file is currently going through our internal procedures.</p> <p>We are able to report that there are no significant findings or issues arising from this review.</p> <p>The detailed findings will be reported to members upon finalisation of the report.</p>	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
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>We noted one transaction, which resulted in the maximum amount to be placed with one institution exceeding the set limits. This financial limit remained consistently in breach until a subsequent withdrawal of £2m in October 2013 brought the level of deposits below the agreed limit.</p> <p>Although Council officers have confirmed the accuracy and completeness of interest payments there is currently no periodic check to confirm that interest has been correctly paid giving rise to a risk that interest may be underpaid.</p>	Limited	<p>The error is accepted, however, the risk is limited given the other checks and balances in place.</p> <p>In particular the restricting of investments to UK high street banks and in this case a Government backed bank.</p> <p>The Council has since opened an account with another bank to hold funds in the 3-9 month timeframe to avoid such occurrences in the future.</p> <p>Full list of all deposits to be included alongside each investment decision as proof of compliance in future.</p> <p>The breach has been reported to Members in the Q3 financial monitoring report</p>

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
Housing Benefits	A review of procedures that relate to the control and administration of the housing and council tax support scheme, including follow up of recommendations raised in our previous review of this area in 2012/13.	8	4	The fieldwork in respect of this review is in progress and nearing completion. Findings from this review will be reported to members upon the finalisation of the report.	-	-
Asset management	A follow up of our review of this area in 2012/13 will be undertaken to provide assurance that the Council's property assets are accounted for and controlled adequately and effectively. This will include testing of key controls relating to the accuracy of property asset records, maintenance arrangements and commercial income and management of empty properties and follow up of previous audit recommendations. As this area received Limited Assurance in 2012/13 we will perform a full re-review of the system.	10	0	We have made arrangements with management to follow up the recommendations in the 2012/13 report. Fieldwork in respect of this review is scheduled to be undertaken in April 2014.	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
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 2012/13.	8	9.5	No issues or recommendations raised as part of this review.	Full	-
Accounts Payable	A detailed review over the adequacy of the accounts payable procedures and the effectiveness of controls around the ordering and payment processes will be performed including a follow up of the recommendations from the previous review. The audit will also look at the financial transactions relating to the Rossendale Leisure Trust.	9	9.5	The fieldwork in respect of this review is now complete and the audit file is currently going through our internal procedures. We are able to report that there are no significant findings or issues arising from this review. The detailed findings will be reported to members upon finalisation of the report.	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
Accounts Receivable	A detailed review over the adequacy of the accounts receivable procedures and the effectiveness of controls around the invoicing and debt management processes will be performed including a follow up of the recommendations from the previous review. The audit will also look at the financial transactions relating to the Rossendale Leisure Trust.	9	6.0	<p>The fieldwork in respect of this review is now complete and the audit file is currently going through our internal procedures.</p> <p>We are able to report that there are no significant findings or issues arising from this review.</p> <p>The detailed findings will be reported to members upon finalisation of the report.</p>	-	-
Payroll	This review will 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. The audit will also look at the financial transactions relating to the Rossendale Leisure Trust.	10	11.5	Our review noted that the reconciliation of payroll deductions with payments to third parties, was not up to date at the time of the audit review.	Substantial	Staff and procedure changes have impacted on the timeliness of some reconciliations although action is being taken to bring these up to date. Officers aim, in future, to have the reconciliations completed and signed by a manager by the end of the month following the payroll date.

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Corporate common controls						
Income Collection and Banking	We have previously covered Markets and Council Properties. In 2013/14 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	10	Our draft audit report relating to this review has been issued for consideration by management. We are able to report that there are no significant findings or issues arising from this review. The findings will be presented to members upon finalisation of the report.	-	-
NNDR	A review of procedures that relate to the control and administration of the National Non Domestic Rates (NNDR) system at the Council including a follow up of recommendations raised in our previous review of this area in 2012/13.	8	0	This review is scheduled to be undertaken in Quarter 4.	-	-
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 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Other areas						
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.	15	6.0	As in previous years the Internal Audit team facilitated the submission of the Annual Fraud Survey. We also liaise with and chase contacts throughout the Council to ensure the matches are being investigated and submission of data is administered in line with requirements. A fraud risk assessment is being carried out in response to the Audit Commission report on Protecting the Public Purse.	-	-
Contingency	A provision to respond to unforeseen issues should they arise.	15	0			

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Other areas						
Follow-up reviews: Health and safety Public consultations ICT Controls	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	1.0	Health and safety This review is scheduled to commence on 14 March 2014.	Original assurance – Substantial	-
				Public consultations Fieldwork in respect of this review commenced in March 2014 and is currently in progress.	Original assurance – Substantial	-
				ICT Controls Fieldwork in respect of this review is scheduled to be completed in Q4.	Original assurance -	-
Management of the Audit Service	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	19	-	-	-
TOTAL 2013/14		225	125.5			

Audit assurance levels

Appendix 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.