

Subject:	Annual Internal Audit Report 2013/14	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	24 June 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"/>
Equality Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
Contact Officer:	Ian Rushworth – Audit Manager	Telephone:	01772 534779
Email:	lan.Rushworth@lancashire.gov.uk		

1.	RECOMMENDATION(S)
1.1	Members are asked to consider the annual internal audit report for the period from 1 April 2013 to 31 March 2014.

2. PURPOSE OF REPORT

2.1 The Audit and Accounts Committee's terms of reference require it to advise the Council on the planned activity and results of internal audit. The Committee will, on a periodic basis, consider the Head of Internal Audit's annual opinion and report.

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 All the issues raised and the recommendation in this report involve risk considerations as set out below:
- Failure to comply with the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the production of an annual report would undermine confidence in the unit and its ability to provide the Authority with the necessary level of assurance in relation to their business risks;
 - The report ensures the Council is able to progress in matters of Financial Management and therefore improve its scoring in the Use of Resources assessments;
 - The report enables the Leader and Chief Executive to report in the Annual Governance Statement.

5. BACKGROUND AND OPTIONS

- 5.1 The Public Sector Internal Standards issued by CIPFA state that the Head of Internal Audit's formal annual report to the organisation should:
- include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
 - disclose any qualifications to that opinion, together with the reasons for the qualification;
 - present a summary of the audit work from which the opinion is derived, including reliance

- placed on work by other assurance bodies;
- d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets;
- f) comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

5.2 The annual report to the Authority meets those requirements and is attached in Appendix A.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Any financial implications arising are noted in the report.

7. MONITORING OFFICER

7.1 Any legal implications are commented upon in the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Any policy implications are commented upon in the report.

9. CONCLUSION

9.1 The annual report is an independent and objective opinion on the adequacy of the Council's control environment.

9.2 The annual report concludes that the council's internal control environment, taken as a whole, is adequate and generally effective. An overall substantial assurance has been provided over the internal control environment.

Background Papers	
Document	Place of Inspection
Accounts and Audit (England) Regulations 2011 – Statutory Instrument 817	Financial Services
Public Sector Internal Audit Standards, CIPFA 2013	Financial Services

**Rossendale Borough Council
Internal Audit Service**

**Annual report of the Head of Internal Audit
for the year ended 31 March 2014**

June 2014



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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 2013/14. 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 2013/14.
- 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 previously to the Audit and Accounts Committee, 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.

Acknowledgements

- 1.5 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 is generally adequate and effective. Consequently, we are able to provide **substantial** assurance over the council's internal control environment. Definitions of the assurance levels used are attached at Appendix 2.
- 2.2 I have however identified weaknesses in control in respect of a number of reviews completed in 2013/14. The issues identified are noted below although further details of these are set out in Section 3 of this report:
- We identified one investment where treasury management limits had been exceeded (See section 3.3);
 - Monitoring arrangements around S106 Agreements were only formalised in October 2013 whilst there had been no monitoring or reporting of requirements under the agreement with English Heritage (See section 3.4);
 - There are weaknesses in the council's risk management process for identifying, scoring and monitoring risks (See section 3.5); and
 - A vulnerability in a wireless network operating at Futures Park provided an opportunity for access controls to be breached although this has since been rectified (See section 3.6).
- 2.3 Management should consider the issues identified above as some of these 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 for implementation and the Internal Audit Service will follow up our findings during the course of 2014/15.

Follow-up of our previous work

- 2.5 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Reports have been issued during the year detailing the outstanding recommendations. A table listing the outstanding recommendations is provided at Appendix 3.

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 overleaf. This includes each internal audit assignment directed to providing controls assurance.

Assignments relating to:	Assurance				
	Full	Substantial	Limited	Nil	In progress
2013/14 reviews					
Key financial systems	2	5	1	0	2
System based reviews	0	2	2	0	1
2012/13 reviews completed in 2013/14					
Key financial systems	0	3	0	0	-
System based reviews	0	2	1	0	-
Total assignments	2 (10%)	12 (57%)	4 (19%)	0 (0%)	3 (14%)

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 2013/14 and these have been split between our core financial systems work and system based reviews.

Core Financial Systems

- 3.2 Our work to date on the council's core financial systems 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 one high priority recommendation as part of our work relating to treasury management, further details relating to this are provided below.
- 3.3 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 now reconciled to actual receipts.

System based reviews

- 3.4 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 were only formalised during our audit at the October 2013 quarterly management meeting. 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.
- 3.5 We were only able to provide **limited assurance** in respect of our review of **Risk Management**. We noted that the process and approach adopted by the Council towards identifying, scoring and monitoring risks is not robust and could be improved. It was also evident from our review of performance reports that risks were not being actively managed and reported during the year.
- 3.6 Our 2012/13 review of **Government Connect Code of Connection and Penetration Testing** was completed in 2013/14 and 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.

Fraud/special investigations

- 3.7 We have not been involved in the investigation of any frauds/thefts and with the exception of the three NFI Housing Benefit cases (see below) have not been made aware of any occurring.

National Fraud Initiative (NFI)

- 3.8 We support the Audit Commission's work proactively to identify potentially fraudulent transactions, known as the National Fraud Initiative (NFI).
- 3.9 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.
- 3.10 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.
- 3.11 The 2012/13 matches were shared with the council in January 2013 and investigated during 2013/14 and 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>	<u>Fraud/ error</u>
Housing Benefit	28	807	3 fraud cases totalling £9,271.14
Payroll	2	3	-
Insurance Claimants	2	8	-
Creditors	9	356	1 error totalling £545.00
Taxi Driver licences	2	4	-
Total	43	1178	4 cases totalling £9,816.14

4. Internal audit inputs and performance

Internal audit plan 2013/14

- 4.1 Work carried out during 2013/14 was in accordance with the audit plan presented and approved by Audit and Accounts Committee on 25 June 2013. 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 each area can be found at section 5 of this report.
- 4.2 We have undertaken a total of 185 audit days against planned input of 225 days. 23 days have also been spent towards completing ongoing audit reviews as at 31 March 2013.
- 4.3 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.
- 4.4 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 2014/15 work.

5. Summary of key findings

- 5.1 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.
- 5.2 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.
- 5.3 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.
- 5.4 **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.

- 5.5 **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 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
System based reviews						
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	<p>Our review of the Corporate Risk Register noted that there are no risks surrounding a number of key service areas, Council initiatives and developments. Furthermore, corporate wide risks have not been robustly identified or defined, and there are no checks to ensure identified risks are accurately recorded on Covalent.</p> <p>Our audit testing of risks surrounding three service areas identified inconsistencies in the scoring of risks, for example, two almost identical risks had been scored differently. This issue is heightened because of deficiencies in the Risk Management Strategy around the definitions for impact and likelihood which have not been revisited since 2009.</p> <p>Our review of the performance reporting indicated that that there is limited monitoring of risks by responsible officers.</p>	Limited	We issued our draft report for management consideration in May 2014. Responses from management will be reported upon finalisation of this report.

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
System based reviews						
Planning	We undertook an audit which covered 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	Previously reported to the Audit and Accounts Committee.	Substantial (Planning and Development Control) Limited (English Heritage funding and S106 Agreements)	Previously reported to the Audit and Accounts Committee.
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	3.5	We agreed, in consultation with management, to defer this review to 2014/15. Management requested that a review of the existing Statement of Community Involvement (SCI) as part of the current year plan. Our review of the SCI noted that the SCI should be adapted to ensure this is clear and easy to understand for users. The SCI should be refined to reflect changes in legislation and the related systems and processes.	Substantial	Management have agreed with the recommendations.

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
System based reviews						
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.	0	1	Following discussions with management we agreed that this audit is deferred to 2014/15 as there is an ongoing internal review of business continuity arrangements. This time will be used to undertake a review of trade waste and bulky collections.	-	
Trade waste and bulky collections	Audit reviews of the arrangements around trade waste and bulky collections to ensure these are undertaken in accordance with established procedures and maximise income for the Council.	20	8	Our fieldwork relating to this review is currently ongoing and a draft report will be issued in June 2014. We will report the findings of this review to Members upon finalisation of the report. <i>There are no significant issues arising from our work to date.</i>	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
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	9	We are able to report that there are no significant findings or issues arising from this review.	Full	-
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	10	Previously reported to the Audit and Accounts Committee.	Limited	Previously reported to the Audit and Accounts Committee.
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	7.5	During the course of our audit we identified an issue which was addressed during our audit.	Substantial	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
Asset management including Income Collection and Banking	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	7.5	Our fieldwork relating to this review is currently ongoing and a draft report will be issued in June 2014. <i>A verbal update will be provided at the Committee meeting.</i>	-	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
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 2012/13.	8	9.5	Previously reported to the Audit and Accounts Committee.	Full	Previously reported to the Audit and Accounts Committee.

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
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	We have completed our audit fieldwork and a draft report has been issued for management consideration. We will report the findings of our review upon finalisation of the report.	Substantial	-
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	8.5	We have completed our audit fieldwork and a draft report has been issued for management consideration. We will report the findings of our review upon finalisation of the report.	Substantial	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
Payroll (Previously reported to the Audit and Accounts Committee)	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	Previously reported to the Audit and Accounts Committee.	Substantial	Previously reported to the Audit and Accounts Committee.
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	7	Our fieldwork relating to this review is currently ongoing and a draft report will be issued in June 2014. <i>There are no significant issues arising from our work to date.</i>	-	-

Table 1

Rossendale Borough Council
Internal Audit Service
Annual report for the year ended 31 March 2014

Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
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	10.5	<p>The Daily Record of Income form enables an audit trail to be maintained of income received by each section and subsequently passed to Exchequer Services for banking. We found that some sections have developed their own paperwork to record income whilst no paperwork is completed for cemeteries income.</p> <p>There is no control within Exchequer Services to ensure income is received regularly from each section.</p> <p>Furthermore, we noted delays, of up to three weeks, in the income being received by the Licensing Section and it being passed to Exchequer Services for banking. To avoid loss of income or interest, cash and cheques should be banked at least weekly.</p>	Substantial	<p>We understand that an updated form has now been issued to all the sections paying cheques into Exchequer to ensure a consistent approach is followed by all sections.</p> <p>A weekly diary reminder has been set up to everyone who receives income, so it is in their diaries each Friday at 9am.</p> <p>The Licensing Officer issued a reminder to staff to send cheques up to Exchequer Services at least weekly.</p>

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
Key financial systems						
Systems work contingency	A small provision has been made to respond to unforeseen issues should they arise.	5	0	We have not needed to use the contingency time during the year.	-	-
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	11	We have liaised with staff to ensure data is submitted to the NFI on time and that matches have been appropriately investigated. We have also reviewed the councils counter fraud arrangements in line with the Audit Commission's Protecting the Public Purse guidance. As a result we have performed a fraud risk assessment which will focus future counter fraud audit work.	-	-
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
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	14	Health and safety Of the ten recommendations raised in our previous review of this area, five have been fully implemented. Further work is required to complete the remaining five recommendations.	Original assurance – Substantial	-
				Public consultations Two of the three recommendations raised have been implemented and further works is required to complete the remaining recommendation.	Original assurance – Substantial	-
				ICT Controls This review was completed in September 2013. We will follow up the three recommendations raised in 2014/15.	Original assurance – Limited	-

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Audit review 2013/14	Audit scope	Planned audit days	Actual audit days	Findings/ comments	Assurance	Management response
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	27	-	-	-
TOTAL 2013/14		225	185			

1. Scope, responsibilities and assurance

Approach

- 1.1 In accordance with the Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the governance, risk management and control processes throughout the council.

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 and Accounts 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.*

Appendix 3 - Rossendale Borough Council recommendations log: All previously reported outstanding recommendations

Plan year	Review area	Assurance level	Recommendations	Risk rating	Responsible officer and implementation date	Current status	Current position
2011/12	Accounts Payable	Substantial	Ordering officers are provided with guidance regarding the circumstances when a confirmation order is/ is not acceptable. The use of confirmation orders should be monitored for appropriateness.	Medium	Exchequer Manager - from July 2012	Not implemented	From our 2013/14 audit work - in a sample of 25 orders, 9 were found to be confirmation orders.
2011/12	Asset management - follow-up. [Original report finalised January 2011]	Original report - Substantial	Consideration is given to ensuring that the next time the plan is revised it is the final version that is submitted for approval.	Low	Property Services Manager - Summer 2011	Not implemented	MF to update the AMP (by 31/03/14). MF to discuss with SS if Cabinet approval require or officer delegation
			That a timetable/schedule is introduced to ensure that the CAMP is reviewed on an annual basis. A record should be maintained of the review.	Medium	Property Services Manager - Summer 2011	Not implemented	Delegation to Management (from the above). MF to prepare annual update
			The asset management plan is revised and updated as a matter of urgency to ensure it reflects the current operational practices within the Authority.	Medium	Property Services Manager - Summer 2011	Not implemented	MF to incorporate any matters via 1 above (possible matters: V Centre, OSS, HSP, Stubbylee)
			That the format of the action plan is revised to facilitate the recording of progress and outcomes against planned actions. However, this will not be required if the actions are recorded on Covalent. See paragraphs 5.24 and 5.27 later in this report. Members are formally advised of the progress of the actions, at least on an annual basis.	Medium	Property Services Manager - Summer 2011	Not implemented	MF to revise the actions as part of 1 above. Depending on the detail, we will consider the use of Covalent.
			The information from the systems link system is transferred onto the IPF asset management database at the earliest opportunity.	Medium	Property Services Manager - Summer 2011	Not implemented	JC to investigate using classification codes within the Civica General Ledger to link asset running costs to individual assets. Investigation work planned for autumn 2014 with a view to implementation from January 2015.
			Management ascertains what information is required from the CAMP, then utilises the management information on the system by scheduling regular reports and scrutinising the content.	Low	Property Services Manager - Summer 2011 ahead of the final accounts	Not implemented	Developments of the Civica system are unlikely for the foreseeable future. JC to investigate the possibility of alternative ways of logging the CAMP data in such a way that progress can be monitored. This work is planned for autumn 2014.
			Consideration should be given to including the CAMP actions on Covalent.	Low	Property Services Manager - Summer 2011	Not implemented	We will add if we consider that they warrant highlighting to the wider organisation. With this in mind any such actions will be included in the annual business plans as a consequence of the AMP update (31/03/14)
			Consideration should be given to establishing more formal performance indicators which should be managed using the IPF database and progress recorded on Covalent to ensure performance of the Council's assets is managed as efficiently and effectively as possible.	Medium	Property Services Manager - Summer 2011	Not implemented	Pis will be considered as part of the AMP update (31/03/14). If any material Pis are identified they will be included in the annual business plan and therefore included in Covalent.
2011/12	Information Governance	Limited	The revised ICT Security Policy should be completed and a framework of standards, procedures and guidance should be developed to support the implementation of the council's information governance policies.	Medium	Head of Customer Services - July 2012 following predefined approval process.	Not implemented	A revised ICT Security Policy is being developed and will be finalised by the end of June 2014.
			A training strategy should be implemented to support information governance both as a new development and as an ongoing requirement of the Council.	Medium	Director of Business - Ongoing	Not implemented	A training plan is being developed and will be reviewed by the SIRO by the end of June 2014.
2012/13	Health & Safety	Substantial	The SSW procedures and Toolbox Talks guidance notes will be revisited and updated to reflect changes in procedures and the new operational and management structures within the Operations and Communities teams.	Medium	Operations Manager 30/09/13	Partly implemented	a) The revised Safe Systems of Work should be formally communicated to operatives. b) The review of Toolbox Talks should be completed and these should be subsequently delivered to operatives.
			When the Service Level Agreement is renewed it will be amended to contain sufficient details of the timeliness and frequency of service provision wherever appropriate.	Medium	HR Manager 01/04/14	Partly implemented	A comprehensive service level agreement should be drawn up and agreed with Together Housing.
			A periodic report will be presented to the Joint Consultative Committee (JCC) of progress against the programme of health and safety audits and the findings from completed reviews, including the actions taken.	Medium	H&S Advisor 30/09/13	Partly implemented	a) Management should ensure once the schedule of audits is agreed that progress against this is reported to meetings of the JCC. b) Previous health and safety audit reports should be presented to the JCC for monitoring and follow up.
			The review of Risk Assessments will be completed in accordance with the established timescales and the process for communicating the revised Risk Assessments will be revisited.	Medium	H&S Advisor 30/09/13	Partly implemented	Risks Assessments should be formally rolled out to staff as appropriate, and ensure these are easily accessible if required.
			Sufficient DSE assessors will be trained to work across all service and operational areas. DSE assessments for all applicable staff will be undertaken within appropriate timescales.	Medium	H&S Advisor 30/09/13	Partly implemented	Officers responsible for DSE assessments should establish a list of staff in their respective areas that require an assessment and ensure that a programme is developed to undertake these assessments and subsequently monitored.
2012/13	Public Consultations	Substantial	Consideration is given to proposed changes prior to the consultation and this information is clearly provided to potential respondents.	Medium	Principal Policy Officer 31/12/13	Outstanding	Officers responsible for consultations should be reminded to ensure background and supporting information supplied to consultees is adequate and sufficient.