

Appendix 1

Rossendale Borough Council Internal Audit Service

Annual report of the Chief Internal Auditor
for the year ended 31 March 2015

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1. Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2014/15 and the key themes arising from it. It provides my opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control. It is made under 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), with which the Internal Audit Service conforms.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function designed to provide an independent and objective opinion on the adequacy and effectiveness of the control environment. The Public Sector Internal Audit Standards require the chief internal auditor to provide an opinion on Rossendale Borough Council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2014/15.
- 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 Annex 1 to this report. The levels of assurance the Internal Audit Service provides are set out in Annex 2.

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 service managers during the course of our work and, where applicable, the council's senior management team.

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. Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 On the basis of the audit work undertaken during the year I can provide substantial assurance that the internal controls and governance arrangements in place during 2014/15 are generally adequately designed and operating effectively. Management's responses to all our work during the year have been positive and action has been, or will be, taken where we have identified control issues.
- 2.2 However, although we have previously concluded that the council has established an adequate framework for managing and controlling its risks, we have also reported that further action was required to develop and embed risk management across the organisation. Our work during this year has confirmed that weaknesses remain in the council's management of risk and accordingly, we are able to provide only limited assurance over the council's risk management arrangements.
- 2.3 It is too early at this point to fully assess the implications of the matters arising in relation to the council's involvement in the Homes and Communities Agency's Empty Homes Programme. The Internal Audit Service has been asked to investigate, considering in particular the council's identification and management of the risks involved in operating that programme, and this work is currently on-going.

Wider sources of assurance available to Rossendale Borough Council

- 2.4 Assurance has been provided by Grant Thornton as the council's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2013/14 in September 2014, and gave unqualified opinions on both the annual financial statements and the value for money arrangements. The external auditor's annual audit letter for 2014/15 is expected to be available in September 2015.

3. Internal audit work undertaken

Core financial systems

- 3.1 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 minor weaknesses have been identified and we have agreed actions with management to strengthen existing controls in these areas. No high risk actions have been identified.

Operational reviews

- 3.2 During the year we have conducted reviews of the payment of expenses and allowances to councillors and the registration of members' interests, and we have reviewed the processes and procedures surrounding both the election process and on-going maintenance of the Electoral Register.

Additionally, as part of our counter fraud work, we have examined the controls in place surrounding the management of equipment and machinery operated by the parks and motor vehicle departments, and the monitoring of vehicle fuel consumption for efficiency and cost effectiveness.

- 3.3 In all cases, we have been able to provide substantial assurance over the adequacy and effectiveness of the controls in place. A number of areas for improvement have been identified and actions have been agreed to address these, which are documented in section 6 of this report. No high risk actions have been raised.

Follow-up work

- 3.4 Work has been undertaken to ascertain progress in implementing agreed actions resulting from the 2013/14 operational reviews, which included risk management, planning and development control and trade waste and bulky collections. Our follow-up work on asset management procedures is currently being finalised. The table below indicates the current position across the three completed reviews.

Actions agreed in 2013/14	Total	Implemented	On-going	Not to be implemented
High risk	2	0	2	0
Medium risk	21	10	8	3
Low risk	12	5	4	3
Total	35	15	14	6

Fraud/ special investigations

- 3.5 No incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative (NFI)

- 3.6 The 2014/15 data matches shared with Rossendale Borough Council in January 2015 and investigated to date are shown in the table below.

Category of data	Number of data matching reports	Number of matches recommended for investigation
Housing Benefit	27	149
Creditors	7	69
VAT	1	11
Payroll	4	5
Insurance	2	4
Taxi drivers	4	0
Total	45	238

- 3.7 To date, only small savings (less than £100) have been identified relating to Housing Benefits, although there are approximately 20 cases where officers are waiting for further information. As yet, no savings have been identified in other categories of data.
- 3.8 With the exception of creditor reports, steady progress is being made by officers in looking at the individual matches with the vast majority of the recommended matches being opened and cleared with no concerns identified. It is understood creditor reports have not been examined due to other work pressures.

4 Implications for the Annual Governance Statement

- 4.1 In making their annual governance statement, Rossendale Borough Council should consider this report in relation to internal control, risk management and corporate governance.
- 4.2 We have agreed actions in a number of areas to enhance the controls in place for the planned audit reviews and except for the high risk areas still being addressed, as noted in paragraph 3.4, no further high risk areas for improvement have been identified. We do however suggest that the council should refer to its intention to further strengthen its risk management process in this statement.

5 Internal audit inputs and performance

Internal audit plan 2014/15

- 5.1 Work carried out during this year was in accordance with the audit plan presented and approved by the Audit and Accounts Committee on 24 June 2014. Details of the assurance provided and key issues identified for each of the areas covered is set out in the 'Summary of findings and assurance' table, which forms part of section 6.
- 5.2 We have undertaken a total of 186 audit days against planned input of 225 days. This variance has arisen due to the removal of the Land charges audit from the audit plan, the deferral of the Business Continuity audit until 2015/16 and additionally the non-utilisation of the contingency provision available for 2014/15.
- 5.3 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.
- 5.4 Individual action plans have been agreed in respect of all the completed areas of work. These indicate that positive action has been, or will be taken. Implementation of these plans will be followed up as part of our 2015/16 work.

Internal audit quality assurance and improvement

- 5.5 In order to place reliance on the work of the Internal Audit Service it is important that Rossendale Borough Council receives assurance regarding its quality; this is also a professional requirement. The Internal Audit

Service therefore undertook a self-assessment in 2012 against the professional standards in place at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified by the Audit Commission, the Council's external auditor during 2012.

5.6 The Audit Commission concluded that:

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

'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'

5.7 Like the rest of Lancashire County Council, the Internal Audit Service will be subject to further restructuring, and a reassessment against the Public Sector Internal Audit Standards, published in 2013 will be necessary in due course.

6 Summary of findings

6.1 The table on the following pages sets out a brief summary of each review undertaken during the period. 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. This also sets out the level and number of agreed actions for each review and details any high and/ or medium level actions. They reflect the findings at the time the work was carried out.

6.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

6.3 **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.

6.4 **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

Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Core financial systems						
Payroll including expenses	10	10	0	✓	✓	Our final report was issued in June 2015. Whilst the majority of controls were operating well there was insufficient evidence on a number of personnel files to confirm that appropriate documents had been verified to confirm an individual's entitlement to work in the UK, and action is being taken to address this.
				Substantial assurance 1 medium and 3 low actions agreed		
Accounts payable	9	9	0	✓	✓	Our final report was issued in June 2015. Actions have been agreed in relation to the maintenance of the contracts register and to ensure that the council obtains value for money from its suppliers. Managers will in addition be reminded of the need to raise orders promptly.
				Substantial assurance 4 medium actions agreed		
Accounts receivable	9	9	0	✓	✓	Our final report was issued in June 2015. Actions have been agreed in relation to ensuring that sufficient resources are allocated to the pursuance of debts referred to Legal Services. Managers are also to be reminded of the requirements of the sundry debt policy, including the process for writing off debts.
				Substantial assurance 3 medium and 1 low actions agreed		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General ledger, budget setting and monitoring	10	10	0	✓	✓	Our final report was issued in March 2015. No significant issues were identified.
				Full assurance No actions raised		
Income collection and banking	10	10	0	✓	✓	Our final report was issued in June 2015. No significant issues were identified.
				Substantial assurance 3 low actions agreed and 1 declined		
Treasury management	8	8	0	✓	✓	Our final report was issued in December 2014. Actions have been agreed in relation to the consistent reconciliation of bank balances and the need to ensure that the accuracy of interest received is checked.
				Substantial assurance 2 medium and 1 low actions agreed		
Council tax	8	8	0	✓	✓	Our final report was issued in March 2015. No significant issues were identified.
				Full assurance No actions raised		
NNDR	8	8	0	-	-	Our draft report has been issued in June 2015.
				Substantial assurance 1 low action raised		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Asset management	10	10	0	-	-	Our fieldwork has been completed and we aim to issue the report by the end of June 2015.
Housing benefit	8	8	0	✓	✓	Our final report was issued in June 2015. No significant issues have been identified.
				Full assurance No actions raised		
Operational reviews						
Members' allowances	5	5	0	✓	✓	Our report was finalised in January 2015. We identified two incorrect payments to Councillor's that were not highlighted by existing controls and noted that special responsibility allowance payments to two Councillors had been omitted in error from the figures published on the Council website. Actions have therefore been agreed to ensure that Finance are copied into notifications to payroll, in order that they can ensure these are correct. Additionally, the published schedule of payments to members has been corrected. We confirmed that action has been taken to implement recommendations in our previous review of this area in 2011/12.
				Substantial assurance 2 medium and 1 low risk actions agreed		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Local land charges	10	1	9	-	-	As the Land Registry took over sole responsibility for performing land searches from 1 April 2015, this audit was deleted from the audit programme on the request of the Director of Business.
Elections	12	12	0	✓	✓	We issued our final report in February 2015.
				Substantial assurance 5 medium actions agreed		At the time of our review, there was a backlog in notifications of changes to the Electoral Register being processed. Furthermore, personal visits had not been carried out for new registrations in line with Electoral Commission guidance and in one instance there was insufficient evidence to support individual registrations. Electoral Commission guidance highlights the importance of obtaining background information including convictions although the Council had no mechanism in place for recording such information. Actions have been agreed to address these issues.

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Business continuity	20	9	11	-	-	Audit fieldwork commenced in January but following discussions with the Director of Resources, we have deferred this audit as the council has not yet completed the disaster recovery testing which is a significant component of the process.
Other areas						
Follow up audit - risk management arrangements	5	9	(4)	-	-	Our report was finalised in April 2015. Good progress has been made in addressing the previous actions agreed, but we still have some concerns over the risk identification process.
Follow up audit - Planning and Development Control	15	15	0	-	-	Our draft report was issued in May 2015. Our detailed findings are being discussed with management, although the previously reported issues regarding s106 and Heritage Funding have not yet been fully addressed.
Follow up audit - Trade Waste and Bulky Collections				-	-	Our final report was issued in May 2015. Good progress has been made in addressing the actions raised.
National Fraud Initiative	5	5	0	-	-	Data matches were received in January 2015 and are currently under investigation.

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Counter fraud assessment	10	10	0	✓	✓	<p>Our final report was issued in February 2015. We have not found any instances of fraud occurring in the areas reviewed but a number of actions to strengthen controls have been agreed, including:</p> <ul style="list-style-type: none"> • A benchmarking exercise is to be performed to identify the most economically advantageous supplier for park related products. • A minimum threshold is to be established for recognition of assets on the asset register and a formal asset disposal process is to be implemented. • All assets will be tagged and allocated a unique serial number and physical verification audits will be subject to independent review. • Contracts of employment are to be updated to clarify procedures re the use of personal tools and processes re the invoicing of scrap metal and debt collection are to be improved. • A fuel tank reconciliation is to be performed and documented, and fuel card data is to be more robustly monitored, including the introduction of a declaration form for staff.
				<p>Substantial assurance 12 medium and 2 low risk actions agreed</p>		

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Review area	Audit days			Assurance		Key issues/ comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Reporting and general management activities	30	30	0	-	-	
Contingency	23	0	23	-	-	
Total	225	186	39			

Annex 1 - Scope, responsibilities and assurance

Approach

In accordance with Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the governance, risk management and control processes of Rossendale Borough Council including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 1 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.
- 2 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.
- 3 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.
- 4 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

- 5 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 improvements that we proposed and that have been accepted by management.

Limitations to the scope of our work

- 6 There have been no limitations to the scope of our work.

Limitations on the assurance that internal audit can provide

- 7 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.
- 8 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

- 9 I have prepared this report solely for Rossendale Borough Council. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers and the Audit and Accounts Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 10 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.

Annex 2 - Audit assurance levels and classification of agreed actions

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 and agreed actions

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 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.*