

Rossendale Borough Council

Internal Audit Service

Internal audit annual report for the year ended 31 March 2016



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1. Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2015/16 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 (PSIAS) 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 head of internal audit to provide an opinion on the control environment of Rossendale Borough Council 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 2015/16.
- 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 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
Head of Internal Audit
Rossendale Borough Council

2. Overall opinion on governance, risk management and internal control

- 2.1 On the basis of our programme of work for the year, I can provide limited assurance overall over the council's governance, risk management and internal control arrangements for 2015/16.
- 2.2 Whilst there are generally sound systems of internal control over the council's key financial systems, our work on the Empty Homes Programme identified that the council's corporate governance and risk management framework, as well as a number of its internal control procedures were overlooked or overridden, with serious consequences for the organisation.
- 2.3 Management's responses to the issues raised by the failure of the Empty Homes Programme have been positive and, although the improvement plan is still being drafted, we understand that some of the actions set out in it have already been taken.

3. Implications for the Annual Governance Statement

- 3.1 In making its annual governance statement the council should consider this overall opinion in relation to its control environment, risk management processes and corporate governance. The council should therefore reflect its intention to further strengthen its risk identification and management process, particularly when dealing with any generic project, risk exposure or opportunity. It should also refer to its wider improvement plan, addressing improvement across the whole council, which will address the issues arising in relation to corporate governance, democratic oversight, performance monitoring and procurement. We understand that it is management's firm intention to ensure that its control framework and governance processes are operated effectively, and not over-looked or over-ridden.

4. Internal audit inputs and performance

Internal audit plan 2015/16

- 4.1 Work carried out during this year was in accordance with the audit plan presented and approved by the Audit and Accounts Committee on 30 June 2015. 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.
- 4.2 Our 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.
- 4.3 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, and implementation of these plans will be followed up as part of our work in 2016/17.

Internal audit quality assurance and improvement

- 4.4 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit

activity and periodically assesses the Internal Audit Service's compliance with the PSIAS. This includes both internal and external assessments and is now set out in a formal Quality Assurance and Improvement Programme.

- 4.5 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS will be reported annually to the Senior Management Team and the Audit and Accounts Committee, but there are no areas of non-conformance with PSIAS to report for 2015/16.

5. Internal audit work undertaken

- 5.1 Our audit coverage for 2015/16 provides assurance over the most significant areas of risk to the council. These include corporate controls and cross-service issues, service specific controls, and corporate common controls including the council's key financial systems. In addition work is carried out on the National Fraud Initiative (NFI), and the work carried out on each of these areas is explained in more detail in the paragraphs below. Information about our findings and assurance is reported in section 6 of this report; information on the findings of our NFI work is reported in section 7.

Financial systems

- 5.2 Our work on the council's financial systems has found that there are generally sound systems of internal control to achieve the control objectives. However, some potential improvements have been identified and we have agreed actions with management to strengthen existing controls in these areas.

Operational systems

- 5.3 Our work on the Empty Homes Programme was reported in full at the Audit and Accounts meeting on 1 December 2015.
- 5.4 During the year we have also conducted reviews of the processes and procedures surrounding both business continuity within the council and Rossendale Transport Ltd, a company which provides public bus services principally within the Rossendale area. We identified some weaknesses, and gave limited assurance to four of the five financial systems we audited. Whilst we have agreed actions with management to strengthen existing controls in these areas, management has also decided to accept the risks in a number of areas rather than to mitigate them any further.

Follow-up of agreed actions

- 5.5 We have undertaken work to ascertain progress in implementing the actions agreed in relation to the 2013/14 operational reviews of asset management and planning, and the 2014/15 operational reviews of elections, members allowances and operations.
- 5.6 We reported to the committee in September 2015 the work we have done to follow up the actions agreed by management to improve a number of the council's control systems. This indicates that progress on these has been slower than managers anticipated, resulting in the need to agree revised dates for implementation.

Fraud/ special investigations

- 5.7 The council's senior officers are continuing to work on matters arising from the failure of the Empty Homes Programme, but we are not aware of any other matters for investigation.
- 5.8 In June 2015 the council appointed a fraud and compliance officer in the service assurance team who is responsible for investigating overpayments and allegations of fraud relating to council tax and housing benefit. In line with government guidance any identified Housing benefit fraud is referred to the Department for Work and Pensions (DWP) for investigation.

National Fraud Initiative (NFI)

- 5.9 Following the submission of data in October 2014, the resulting matches were released by the Cabinet Office in January 2015 for investigation by the council with further matches released in March, July and December 2015. The NFI has been an ongoing exercise throughout 2015/16 and the investigation and follow up of the data matches have been overseen by the NFI key contact within the internal audit service. Categories of matches include housing benefits, payroll, creditors, market trader licences, insurance, licences to supply alcohol, taxi driver licences and for the first time, the council tax reduction scheme.
- 5.10 A separate matching process is also undertaken which matches council tax data with the electoral roll. These matches are released in December each year and are processed by Capita in the following April because Capita has other priorities in terms of producing the council tax bills for the following financial year during the first three months of the calendar year. This means that the December 2015 matches have only recently been processed and hence the process of identifying errors or frauds for those reports at this point in time has not been fully completed. At the time of writing this report significant progress has been made, there was 224 matches completed and 146 matches still in progress.
- 5.11 The table in section 7 of this reports shows a summary of National Fraud Initiative (NFI) findings.

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 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.

Summary of our findings and assurance

Audit review	Audit scope	Findings/ comments	Assurance
NNDR	We reviewed the council's systems to collect and record National Non Domestic Rates (NNDR), focusing on billing procedures, processing of valuation updates, administration of exemptions and reliefs, and debt recovery.	The system of internal control over this area is adequately designed to meet the council's objectives, but the NNDR suspense account is not effectively reviewed.	We can provide substantial assurance over the controls in place.
Asset management – follow-up	We assessed the progress made in implementing the actions agreed in October 2014, which arose from previous follow-up work. We have not undertaken a full re-review of the whole system.	Whilst some progress has been made, this has been slower than was originally anticipated and revised implementation dates have been agreed.	Since this is follow-up work on the actions taken we have not revised the limited assurance we originally gave.
Planning – follow-up	We assessed the progress made in implementing the actions agreed in February 2014.	Whilst some progress has been made, this has been slower than was originally anticipated and revised implementation dates have been agreed.	Since this is follow-up work on the actions taken we have not revised the substantial overall assurance we originally gave.
2015/16			
Elections – follow-up	We assessed the progress made in implementing the actions agreed in February 2014.	Whilst one action has been fully implemented, processes in some areas are still developing and work is ongoing to address the issues in this area. Revised implementation dates have been agreed where possible.	Since this is follow-up work on the actions taken we have not revised the substantial assurance we originally gave.
Members' allowances – follow-up	We established the progress made in implementing actions agreed in January 2015.	This work again identified incorrect allowance payments to members, which had not been identified through the council's control processes. There are currently insufficient resources to check on payroll input before payments are made, but it has been agreed that the finance team will check payments after they have been made.	Since this is follow-up work on the actions taken we have not revised the substantial assurance we originally gave.

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Audit review	Audit scope	Findings/ comments	Assurance
Empty Homes Programme	We assessed the issues arising in relation to this programme.	Our detailed findings were reported to the committee in December 2015.	We did not provide an opinion as this was not a control assurance report. However this work will clearly inform our overall opinion for the year.
Housing benefits	We reviewed the council's systems and processes surrounding housing benefit and council tax support.	There were no significant findings arising from our audit review and no action is required to improve controls.	We can provide full assurance over the controls in place.
Operations follow-up	We assessed the progress made in implementing actions agreed following the 2014/15 internal audit review of Operations, which covered fuel, parks equipment and motor vehicle parts and tools.	Good progress has been made in addressing the actions agreed in our report of February 2015 and revised dates for implementation have been agreed for the two ongoing actions, which both concern the asset register.	Since this is follow-up work on the actions taken we have not revised the substantial assurance we originally gave.
Council tax	Our review focussed on the key controls relating to the setting of council tax, processing of amendments, administration of discounts and exemptions, inspection visits and debt recovery and enforcement procedures. We also checked the adequacy of user access permissions to the council tax system.	There were no significant findings arising from our audit review and no action is required to improve controls.	We can provide full assurance over the controls in place.
Rossendale Transport Ltd	We have completed our review of the adequacy and effectiveness of the operation of key controls of the key financial systems operated within Rossendale Transport Ltd (ROSSO).	The size of the team means that the potential for segregation of duties is minimal, as would be expected, and a number of the procedures it operates are relatively informal.	The can provide substantial assurance in relation to one system (payroll) and limited assurance in four other systems (accounts payable, accounts receivable and debt management, general ledger and financial reporting, and cash).
Business	We have assessed the adequacy	Although business continuity plans exist, we	The audit work we have

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Audit review	Audit scope	Findings/ comments	Assurance
continuity	and effectiveness of business continuity management, in particular, to ensure that the council has clear, up to date business continuity plans that are regularly tested and fully understood by those responsible for invoking them in the event of an emergency.	cannot provide assurance that they cover all services, particularly with the ongoing organisational changes and more importantly, that the plans in place are effective and satisfy the council's obligations as a category one responder under the Civil Contingencies Act. Management have acknowledged the points raised and have committed to implement changes to address them.	undertaken only allows us to provide limited assurance over the controls in place.
Treasury management	Our work focused on the treasury management framework, control over investments and borrowing, and cash flow management. The review included the examination of transactions processed and documents produced between April 2015 and March 2016; and the follow up of the outstanding actions after the 2014/15 review.	There are no findings that would have a significant impact on the achievement of service objectives and a strong control environment continues to be maintained. However one trainee who left in 2014 had not been removed from the Bankline system.	The audit work we have undertaken allows us to provide substantial assurance over the treasury management controls in place.
General ledger, budget setting and monitoring	Our work looked at the systems and processes surrounding the general ledger and budget setting/ monitoring system including control over access to the general ledger, approval of the annual budget, and setting it up on the general ledger, control account reconciliations, journal input to the general ledger, the separation of transactions for Rossendale Leisure Trust.	There were no significant findings arising from our audit review. However, controls would be improved if the council formalised the process for the approval of virements and documented a scheme for virements for this purpose.	The audit work we have undertaken allows us to provide substantial assurance over the controls in place.
Payroll	Our work looked at the Council's systems and processes surrounding the payroll system.	The testing we performed did not identify any significant issues in relation to payroll processing. We did however identify some controls indirectly related to payroll processing which need to be	Based on our review we can provide a substantial assurance opinion on the payroll system.

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Audit review	Audit scope	Findings/ comments	Assurance
		strengthened to ensure human resource records are complete.	
Accounts payable	The audit review has involved discussion with key contacts to identify key data and processes, consideration of the adequacy of existing processes and controls in achieving system objectives, review of documentation on a sample basis to determine whether controls are operating effectively and a review of the follow up of actions resulting from the prior year audits, to determine whether agreed actions have been implemented as planned.	There are no findings that would have a significant impact on the achievement of service objectives and a strong control environment continues to be maintained by the finance and exchequer teams. Several of the actions agreed in this review and those outstanding from previous reviews require staff to be reminded of the council's processes for the prompt raising of purchase orders, processing invoices and recovery of debt. In order to address these issues a reminder should be communicated to staff either via the Council's Team Brief or the intranet.	The audit work we have undertaken allows us to provide substantial assurance over the controls in place.
Accounts receivable			The audit work we have undertaken allows us to provide substantial assurance over the controls in place.
Cash collection and banking			The audit work we have undertaken allows us to provide substantial assurance over the controls in place.

7. Summary of National Fraud Initiative (NFI) findings

7.1 The table below sets out a brief summary of the NFI findings.

Category of data	Number of reports	Number of matches	Number of frauds	Number of errors	Savings £
Housing benefit	28	647	4 ¹	2	71,996
Payroll	4	17	0	0	0
Insurance	2	11	0	0	0
Taxi drivers	4	9	1 ²	0	0
Creditors	8	363	0	0	0
Council tax reduction scheme	27	865	1 ³	6	9,496
Council tax December '14 release	2	386	1 ⁴	40	16,885
Council tax December '15 release ⁵	2	370	0	0	0
Total	77	2,668	7	48	98,377

¹ Housing benefit has been identified as being claimed inappropriately and in line with government guidance the case was passed to the Department for Work and Pensions (DWP) for investigation. Following the investigation £66,181 of fraud was recorded relating to housing benefit and a further £5,152 relating to other DWP areas.

² A taxi driver was found to have no right to work in the UK, and their licence has been suspended whilst an appeal is heard regarding their residency in the country.

³ Following council tax reduction checks fraud of £1,750 relating to DWP was identified. The individual had not declared income to DWP affecting the amount of Employment Support Allowance (ESA). The individual was entitled to ESA which supported their claim for council tax reduction and therefore no savings can be identified in relation to council tax.

⁴ A council tax single person discount was claimed inappropriately, and £727.42 has been billed to reclaim the discount applied.

⁵ The council tax NFI data released in December 2015 did not begin being processed until April 2016 and therefore is not yet completed. At the time of writing this report there was 224 matches completed and 146 matches still in progress.

Annex 1 - Scope, responsibilities and assurance

Approach

1. 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

2. The Regulations set out that Rossendale Borough Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
3. Rossendale Borough Council has taken the decision to outsource their internal audit provision, and Lancashire County Council's Internal Audit Service was the appointed service provider for 2015/16, responsibility for maintaining an adequate and effective system of internal audit remains with Rossendale Borough Council.
4. It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
5. This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
6. The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
7. Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the council's Senior Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit

Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

8. The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
9. The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

Basis of our assessment

10. 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

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

Limitations on the assurance that internal audit can provide

12. 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.
13. 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

14. This report has been prepared solely for the use of Rossendale Borough Council and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in

whole or in part, for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

15. 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.

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.*