

**Rossendale Borough Council**

**Internal Audit Service**

**Annual assurance report for the year ended 31 March 2017**

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## **1. Introduction**

### **Purpose of the report**

- 1.1 This report sets out my assurance opinion for the year ending March 2017 on the overall adequacy and effectiveness of Rossendale Borough Council's frameworks of governance, risk management and internal control. This opinion is based on the work of the Internal Audit Service (IAS) in 2016/17 and 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 IAS conforms.
- 1.1 The PSIAS require the Head of Internal Audit (HIA) 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. To this end, this report summarises the work IAS has undertaken in the year, including progress with delivery of the annual audit plan, agreed audit findings and assurance opinions. The scope of IAS responsibilities, management and work, the basis of my assessment and access to this report are set out in Annex 1. The levels of assurance provided are set out in Annex 2.

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

- 1.2 The IAS is an assurance function providing independent, objective opinions on the adequacy and effectiveness of the control environment. As HIA I report to a level within the organisation that allows IAS activity to fulfil its responsibilities. The IAS and the HIA are organisationally independent of the Council's other functions, and supporting arrangements are described in the IAS Charter.
- 1.3 The IAS operates under the International Standards for the Professional Practice of Internal Auditing (Standards) which are encompassed within PSIAS.

### **Interim reports**

- 1.4 This report builds on matters reported previously to the Audit and Accounts Committee, which has been discussed during our work with respective service managers and, where applicable, the senior management team.

### **Acknowledgements**

- 1.5 I am grateful for the assistance that has been provided by the senior officers and 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**

- 1.6 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 2016/17.
- 1.7 The Council has done a lot of work during the year to design and implement its Improvement Plan, developed in particular to address the issues arising around the Empty Homes Programme. It has also made good progress in embedding improvements into its standard business processes. We gave substantial or full assurance over the systems of internal control operating over most of the transactional systems.
- 1.8 We also gave substantial assurance over performance management, but only limited assurance over other critical corporate processes. It is clear that further work is still necessary to improve the council's compliance with its procurement policy and to further embed risk management across all of its activities, and we gave only limited assurance over these critical corporate processes. These processes inform corporate governance and impact directly on the Council's ability to oversee, scrutinise and challenge the work being done to achieve its overall objectives and our assurance opinions for these audits therefore have a significant impact on our overall opinion.
- 1.9 The outstanding actions from the Improvement Plan and its key themes will become further embedded into the council's normal business when they are included in the new 2017-21 Corporate Strategy, which will inform business planning supported by more robust performance and risk management.

## **3. Audit assurance model**

- 1.10 We use four categories of assurance: full, substantial, limited and no assurance. We may provide substantial assurance over the adequacy and effectiveness of an internal control system but still report some weaknesses within it. Likewise we may be unable to provide more than limited assurance over a control system, but nonetheless recognise some positive aspects of the system. We do not use an intermediate category as we consider it more important to give a clear opinion one way or the other and reflect any shades of opinion in the accompanying narrative report.
- 1.11 The overall opinion covers a twelve month financial period and the evidence to support it therefore relates to the controls in operation for that period. The opinion will also be informed by previous audit results and follow-up work in the current year.
- 1.12 Annex 2 below describes further the four levels of assurance and how we classify agreed actions.

#### **4. Implications for the Annual Governance Statement (AGS)**

- 1.13 In preparing its AGS the Council should consider this annual assurance opinion in relation to its control environment, risk management processes and corporate governance. The Council should therefore reflect its proposed action to address the issues raised around procurement, decision making and oversight and risk management. It should refer to the delivery of the Improvement Plan and describe the impact on corporate governance and democratic oversight.

#### **5. Internal audit inputs and performance**

##### **Internal Audit Plan 2016/17**

- 1.14 Work carried out in the year was in accordance with the audit plan presented and approved by the Audit and Accounts Committee on 15 March 2016 as amended in September 2016. Details of the status of each audit, assurances provided and key issues identified are set out in the 'Summary of Findings and Assurance' table at Section 6. We will follow up in 2017/18 implementation of action plans agreed to address any need for improvement.
- 1.15 We liaised regularly with the council's external auditors to minimise duplication and to allow the external auditors to place reliance on our work where possible.

##### **Quality assurance and improvement**

- 1.16 The Service operates a Quality Assurance and Improvement Programme to formally review arrangements in place to ensure the quality of internal audit work and periodically assess compliance with the PSIAS. The results, including any areas of non-conformance with PSIAS, are reported annually to the Senior Management Team and the Audit and Accounts Committee. There are no areas of non-conformance with PSIAS to report for 2016/17.

#### **6. Delivery of the audit plan**

##### **Progress**

- 1.17 Progress with delivery against the audit plan is reported regularly through the year to the Audit and Accounts Committee. Table 1 below lists planned audits, assurance opinions provided and a summary of findings previously reported. Table 2 shows the actual days used to date against planned days. Audit findings have been agreed with managers and reports issued for all but one audit, which we are currently drafting. We are also reporting the outcome of work to facilitate National Fraud Initiative (NFI) activity in this section.

##### **Corporate and cross-service systems**

- 1.18 Our original audit plan included a number of days to provide assurance over Improvement Plan implementation. It was subsequently agreed that we

would obtain the relevant assurances through four audits of key corporate systems: risk management, procurement, performance management and decision making and democratic oversight.

- 1.19 Overall high level strategies and procedures are in place or are being refreshed. Frameworks, policies and procedures are largely fit for purpose, in line with best practice and indicated a positive, pro-active approach to managing key systems. Despite this, we found insufficient evidence that procedures are fully or appropriately complied with in key areas, particularly project risk management and procurement, to justify other than limited assurance opinions in these areas. This indicates a need for more robust management assurance over compliance with established procedures.
- 1.20 The current position on the Empty Homes Programme is that of 359 properties taken onto the Programme the council have returned 140 to their owners and 200 have been successfully refurbished and transferred to Calico Homes, who are progressing renovations of the remaining 19 properties

*Performance management – substantial assurance*

- 1.21 The Council is taking a positive, proactive approach to managing performance. A Performance Management and Business Planning Overview and Scrutiny Task and Finish Group comprising senior officers and members was set up in 2016 to review arrangements and highlight areas for improvement. The Council's 2014-16 plan was refreshed for 2016/17 and a new Corporate Strategy 2017-21 was being produced for consideration by Cabinet in June 2017 and Full Council in July. A high-level Performance Management Framework has been approved by Overview and Scrutiny Committee and there was oversight at appropriate levels, supported by regular and detailed reporting. Supporting procedures and guidelines were recorded in the Performance Management and Data Quality Strategy but these need to be reviewed and refreshed, and included in training for managers. We tested three performance indicators and agreed two to source data and records. Supporting documentation for one was inconsistent and evidence had not been retained to explain reported figures. Assurance over performance data quality is obtained through annual declarations from managers, although we recommend that in future this should include a requirement to validate data and confirm retention of evidence.

*Risk management – limited assurance*

- 1.22 We audited risk management arrangements underpinning the business planning cycle and project management. We can give substantial assurance over corporate risk management and consider the system is adequately designed and consistently applied, although we have identified improvement needs, including Service-level risk registers. However, we can only give limited assurance for project risk management. While project managers appear to understand key risks there is evidence of wider, formal

risk assessment, monitoring and reporting only in large projects with direct public impact. For example, Bacup Townscape Heritage Initiative has partnership governance structures where risks are identified, recorded and monitored. Most projects managed by the Council are smaller in scale and are not supported by formal arrangements for managing risk. We acknowledge risk management in higher value, higher risk projects is better controlled, but are concerned that a standard approach to managing project risks is not being more widely used in other council-led projects and that a standard project risk management approach should be more widely adopted.

*Procurement – limited assurance*

- 1.23 Comprehensive contract procedure rules are recorded in the Constitution. While officers are required to follow these rules we found inconsistency in compliance with them. For example, council contracts were often not signed by either the Council or contractor. While there is no legal requirement for written or signed contracts, and the Monitoring Officer is content with the approach taken, we consider that a signed contract gives valuable certainty over contractual obligations. Of 13 contracts tested, four fully complied with procedure rules, four complied in part and five did not comply, including one where OJEU advertising requirements had been contravened. The Procurement Strategy supporting procedure rules has not been updated since 2009, for example to reflect changes in legislation. There are no corporate processes giving assurance that rules were applied. The Monitoring Officer is responsible for managing contract functions and provides guidance on procurement, although this depends on her being made aware of activity in a timely way. We took positive assurance over ICT's use of an up-to-date contracts register to manage contracts, which is reviewed monthly. We consider there is a need for the wider council contract register to be updated and actively used to monitor contracts; it has not been refreshed since January 2015. While this would provide a practical way to prompt activity to monitor and review contracts, it could facilitate only retrospective assurance over the application of procurement rules.

**Key financial systems**

- 1.24 The Council's financial controls are generally well established and operated effectively. We have recommended action to address some minor issues arising from small errors and lapses in knowledge of procedures, including documenting decisions to transfer funds between budgets and completion of declaration of interest forms. We confirmed that action has been taken to address issues raised on previous audits, including substantial reductions in the number of confirmation orders. While overall systems and procedural compliance is satisfactory we have concerns over debt management activity across a number of financial systems, where reported debts have not been as actively pursued as they might have been.

*Accounts receivable – limited assurance*

- 1.25 There are adequate, effective controls in place: employees tested were current employees, had appropriate access rights and documents supported invoices and credit notes. However, we have concerns over debt management. A policy is in place but no action was being taken for some invoices and sundry debtors had increased from 8% (2011) to 29% (2016). This was exacerbated by inadequate management information. The Exchequer Manager has begun a project to categorise debts to the correct recovery stage which should facilitate analysis and efficient debt recovery.

*Accounts payable – substantial assurance*

- 1.26 Numbers of confirmation orders have greatly reduced since our last audit - all invoices were matched to purchase orders and coded correctly. Barclaycard expenditure is well controlled though there is a need for a credit card policy. Payment processing was adequately separated, exception reports cleared and reconciliations undertaken promptly.

*Income collection and banking – substantial assurance*

- 1.27 Comprehensive procedures are in place for receipting cash and cheques. Income is promptly receipted on ICON and a receipt given to the service department where applicable. Income tested is correctly coded on the general ledger. Income received direct to the bank is reconciled and receipted and ICON, the general ledger and bank accounts are reconciled.

**Follow-up of agreed actions**

- 1.28 We followed up the implementation of actions agreed in prior audits of common controls. However by agreement with management we will not follow up any other agreed actions from earlier years' audits. In particular, it is for the Board of Rossendale Transport Ltd to ensure that the actions agreed to strengthen Rosso's financial controls have been implemented. We understand that the council has been working to ensure that the matters we audited in 2015/16 and reported in June 2016 have been implemented in respect of the council's business continuity planning.

**Fraud/ special investigations**

- 1.29 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. The Council's Fraud and Compliance Officer in the Service Assurance Team 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 for investigation.

**National Fraud Initiative (NFI)**

- 1.30 Data was uploaded in October 2016 for the 2016/17 NFI exercise. The matches were released in January 2017 and checking of these is progressing. The NFI has been ongoing throughout 2016/17 and the



investigation and follow up of the data matches have been overseen by the Internal Audit Service. Details of the results are shown below.

2016/17 biennial exercise Data categories	Number				Savings
	Reports	Matches	Frauds	Errors	£
Housing benefit	19	288	2	0	59,641 <sup>1</sup>
Payroll	2	16	0	0	0
Insurance	0	0	0	0	0
Taxi drivers	3	8	0	0	0
Council tax reduction scheme	28	460	2	1	2,383 <sup>2</sup>
Creditors	6	899	0	0	0
Value Added Tax	1	135	0	0	0
Housing tenants	1	2	0	0	0
Procurement - payroll	2	19	0	0	0
Individuals on more than one report.	1	144	0	0	0
<b>Total</b>	<b>63</b>	<b>1,971</b>	<b>4</b>	<b>1</b>	<b>62,024</b>

- 1.31 A separate matching process is also undertaken which matches council tax data with the electoral roll. This data was also uploaded in October 2016 and the results were released in December 2016. We understand that the matches have largely been checked and only minor enquiries are ongoing. Details of the latest council tax matches and comparisons with previous year's results are also included in the table below.

Data categories	Number				Savings
	Reports	Matches	Frauds	Errors	£
Council tax December 2014 release	2	386	1	40	16,885
Council tax December 2015 release	2	370	0	44	16,521
Council tax December 2016 release	2	614	0	103	21,485

## 7. Summary of findings

- 1.1 Table 1 below reports progress with delivery of planned audits and assurance opinions. Table 2 shows the actual days used against planned days.

<sup>1</sup> This match was referred to the DwP on 2014/15 matches but has only recently been concluded. DwP took no action taken to prosecute as stated it was not in their interest due to claimant's health. No follow up recovery action to be taken.

<sup>2</sup> £1,187.59 paid to individuals now deceased. Claim cancelled resulting in a bill of £1,187.59, but the awaiting probate exemption was put on to the council tax account. Classed as official error.

**Table 1 - Audit status and assurance**

<b>Audit title</b>	<b>Assurance opinion</b>	<b>Comments</b>
<b>Corporate controls</b>		
Performance Management	Substantial	See Section 5
Risk Management Strategy	Limited	See Section 5
Decision Making and Democratic Oversight	To be confirmed	We have discussed key findings with senior managers and an audit report is being drafted.
<b>Cross-service controls</b>		
Procurement	Limited	See Section 5
<b>Service-specific controls</b>		
Use of Disabled Facilities Grant funding	Substantial	Effective controls are in place to ensure Government funding is used appropriately and in accordance with agreed conditions. We recommended a small number of medium or low level actions which management accepted.
Housing management: refurbishment	Substantial	Key controls are in place and operated effectively to ensure properties are renovated to required standards and that procurement achieves value for money. We recommended a small number of medium or low level actions which management accepted.
Town centre redevelopment phase 1	Full	All reasonable action to manage programme risks had been taken and were satisfied at the effectiveness of project management controls, project delivery and compliance with council policies and procedures. We recommended no further action.
Empty Homes Improvement Strategy	Not applicable	Assurance over Improvement Strategy implementation was delivered through four new audits of risk management, performance management, procurement and decision making.
Rents and rent arrears management	Not applicable	The need for this work was superseded in the year by the transfer of properties to Calico.
<b>Common Controls</b>		
Accounts payable	Substantial	See Section 5
Accounts receivable	Limited	See Section 5
Income collection / and banking	Substantial	See Section 5.
NNDR	Substantial	We can give substantial assurance over controls but are concerned that, as with Council Tax, no action was being taken to pursue debt reports provided by Capita. NNDR arrears of £400,000 had accrued and legal action was to start in May.
Payroll	Substantial	We noted only minor issues, in particular the need to conduct exit interviews as staff leave to

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Audit title	Assurance opinion	Comments
		ensure that the necessary checks are completed.
Treasury management	Substantial	There was very limited treasury management activity in the first six months of the year subject to testing, but we can confirm that the necessary controls operated effectively.
General ledger, budget setting and monitoring	Substantial	While we found no significant issues the need to document authority to transfer funds between budgets, agreed at the previous audit, had not been implemented and was agreed again.
Housing benefits	Substantial	There were no significant control issues but three officers had not returned declarations of interest (including nil returns) where they had relatives in receipt of housing benefit.
Council tax	Substantial	Controls are adequate and operated effectively though debt recovery and write-off is not effectively monitored. Capita forward a monthly monitoring report to RBC of outstanding debts, but the council do not review this and its format does not support effective monitoring. A £5,000 debt was written off without Cabinet approval due to unfamiliarity with the process.

**Table 2 – Actual days used**

	<b>Days planned</b>	<b>Days used</b>	<b>Remaining +/-</b>
Decision making and democratic oversight	10.00	10.00	0
Performance monitoring	10.00	15	(5.00)
Operation of the Risk Management Strategy	10.00	15	(5.00)
Procurement	14.00	14.00	0
Contingency	5.00	0.00	5.00
Management of the audit service	20.00	19.50	0.50
Income collection and banking	8.00	7.00	1.00
Accounts payable	9.00	9.00	0
Accounts receivable	9.00	9.75	(0.25)
Housing management	15.00	16.75	(1.75)
Town centre redevelopment	15.00	14.25	0.75
Use of Disabled Facilities Grant funding	15.00	15.00	0
Payroll	9.00	8.75	0.25
General ledger, budget setting and monitoring	9.00	8.75	0.25
Council tax	8.00	8.50	(0.50)
Housing benefits	8.00	7.75	(0.25)
National Non Domestic Rates (NNDR)	8.00	8.25	(0.25)
Treasury management	8.00	5.50	2.50
Follow-up of agreed actions	10.00	5.00	5.00
Counter fraud (inc. National Fraud Initiative)	10.00	6.25	3.75
Whistleblowing	0.00	3.00	(3.00)
<b>Audit days used</b>	<b>210.00</b>	<b>207.00</b>	<b>3.00</b>

## **Annex 1 - Scope, responsibilities and assurance**

### **Approach**

1. The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit work encompasses all of the Rossendale Borough Council's operations, resources and services including where they are provided by other organisations on its behalf.

### **Responsibilities of management and internal auditors**

2. 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 2016/17. Responsibility for maintaining an adequate and effective system of internal audit remains with Rossendale Borough Council.
3. 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.
4. 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 management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
5. 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.
6. 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 to ensure those controls were operating effectively for the period under review.

### **Basis of our assessment**

7. My opinion on the adequacy of control arrangements is based upon the result of internal audit work undertaken and completed during the period in accordance with the plan approved by the Audit and Accounts Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

### **Limitations to the scope of our work**

8. Other than as set out in the audit plan for the year there have been no limitations to the scope of the audit work.

### **Limitations on the assurance that internal audit can provide**

9. 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 due to human error, of control activities being circumvented by collusion of two or more people and of management overriding controls. There is also no certainty that in future internal controls will continue to operate effectively in future or that controls will be adequate to mitigate all significant risks which may arise.
10. 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 a judgment.

### **Access to this report and responsibility to third parties**

11. This report has been prepared solely for Rossendale Borough Council. It 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 assignment.
12. This report may be made available to other parties, such as the external auditors. However no responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

## 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:

**Full:** 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:** 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:** weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

**No:** 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:** 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:** 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:** 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:** 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.*