

**Committee:** Accounts, Audit and Risk Committee  
**Date:** Wednesday 23 January 2013  
**Time:** 6.30 pm  
**Venue:** Bodicote House, Bodicote, Banbury, OX15 4AA

### Membership

<b>Councillor Trevor Stevens (Chairman)</b>	<b>Councillor Mike Kerford-Byrnes (Vice-Chairman)</b>
<b>Councillor Andrew Beere</b>	<b>Councillor Colin Clarke</b>
<b>Councillor Andrew Fulljames</b>	<b>Councillor Lawrie Stratford</b>
<b>Councillor Rose Stratford</b>	<b>Councillor Barry Wood</b>

## AGENDA

1. **Apologies for Absence and Notification of Substitute Members**

2. **Declarations of Interest**

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. **Minutes** (Pages 1 - 6)

To confirm as a correct record the Minutes of the meeting of the Committee held on 5 December 2012.

4. **Petitions and Requests to Address the Meeting**

The Chairman to report on any requests to submit petitions or to address the meeting.

**5. Urgent Business**

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

**6. External Audit Progress Update**

Ernst & Young will provide a verbal update to the Committee.

**7. Internal Audit Progress Report (Pages 7 - 48)**

Report of Chief Internal Auditor.

**Summary**

This report provides the Committee with an update of the work of Internal Audit since the last meeting.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended:

(1) to consider and approve the report.

**8. External Audit Annual Governance Report (Pages 49 - 54)**

Report of Head of Finance and Procurement.

**Summary**

This report allows Members to consider the External Auditors' annual audit fee letter for 2012/13.

**Recommendations**

The Accounts, Audit and Risk Committee is recommended to:

(1) note the contents of the fee letter.

**9. Work Programme (Pages 55 - 56)**

To review and note the Committee work programme.

**Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.**

## **Information about this Meeting**

### **Apologies for Absence**

Apologies for absence should be notified to

[democracy@cherwellandsouthnorthants.gov.uk](mailto:democracy@cherwellandsouthnorthants.gov.uk) or 01327 322121 prior to the start of the meeting.

### **Declarations of Interest**

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item. The definition of personal and prejudicial interests is set out in the constitution. The Democratic Support Officer will have a copy available for inspection at all meetings.

**Personal Interest:** Members must declare the interest but may stay in the room, debate and vote on the issue.

**Prejudicial Interest:** Member must withdraw from the meeting room and should inform the Chairman accordingly.

With the exception of the some very specific circumstances, a Member with a personal interest also has a prejudicial interest if it is one which a Member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest.

### **Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates**

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

### **Evacuation Procedure**

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

### **Access to Meetings**

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

### **Mobile Phones**

Please ensure that any device is switched to silent operation or switched off.

### **Queries Regarding this Agenda**

Please contact Gavin Lane, Democratic and Elections  
[gavin.lane@cherwellandsouthnorthants.gov.uk](mailto:gavin.lane@cherwellandsouthnorthants.gov.uk), 01327 322121

**Sue Smith**  
**Chief Executive**

Published on Tuesday 15 January 2013

# Agenda Item 3

## Cherwell District Council

### Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 5 December 2012 at 6.30 pm

Present: Councillor Trevor Stevens (Chairman)  
Councillor Mike Kerford-Byrnes (Vice-Chairman)

Councillor Andrew Beere  
Councillor Colin Clarke  
Councillor Lawrie Stratford  
Councillor Rose Stratford

Apologies for absence: Councillor Andrew Fulljames □ Councillor Barry Wood

Officers: Chris Dickens, Chief Internal Auditor  
Karen Curtin, Head of Finance and Procurement  
Jo Pitman, Head of Transformation  
Nicola Jackson, Corporate Finance Manager  
Shirley Vaughan, Performance and Planning Officer  
Jeff Brawley, Investigations Manager  
Gavin Lane, Democratic and Elections Officer

#### 29 **Declarations of Interest**

There were no declarations of interest.

#### 30 **Minutes**

The Minutes of the meeting of the Committee held on 19 September 2012 were agreed as a correct record and signed by the Chairman, subject to the inclusion of 'Chris Dickens' amongst the list of those 'Also Present' and the amendment of 'Charlotte Blisworth' to read 'Charlottle Blisland'.

#### 31 **Petitions and Requests to Address the Meeting**

There were no petitions or requests at the meeting.

#### 32 **Urgent Business**

There was no urgent business.

33 **External Audit Progress Update**

The Committee considered a progress report on the external audit process by Maria Grindley on behalf of Ernst and Young, the Council's external auditor.

It was reported that the Council's external audit service had been transferred from the Audit Commission to Ernst and Young on 1 November 2012. The Committee was assured that the team at Ernst and Young had the strength and depth of staff needed to provide a robust external audit service.

The Committee was introduced to Mr Alistair Rankin, who had been appointed Audit Manager for external audit purposes and would lead the process in future.

It was reported that the External Audit Plan would be presented to the Committee in due course.

**Resolved**

(1) That the report be noted.

34 **Internal Audit Progress Report**

The Committee considered a report by the Chief Internal Auditor on the work undertaken by Internal Audit since its last meeting.

The Committee heard that 70 audit days out of a planned 160 (44%) were completed and it was anticipated the plan would be completed ahead of the year end. One final report had been issued and draft reports on eight areas had been issued and/or fieldwork completed.

In order to ensure that the audit plan remained fit for purpose, the Committee heard that the scope of the Fraud Risk Assessment Review had been widened to include the use of electronic signatures and rubber stamps. To reflect this wider remit, the review had been renamed the 'Signature Audit'. The findings of the review would be reported at the next meeting.

The Committee heard that the Collection Fund audit had been given a medium risk rating for 2012-13, but that there had been an increase in the number of issues noted since the 2011-12 internal audit report. Many of these related to unresolved issues from the previous year, including a lack of documentary evidence that controls had been carried out and that a number of control procedures had not been formalised and were undertaken sporadically.

The Chief Internal Auditor reported that PricewaterhouseCoopers (PWC) had recently published a report on 'The Agile Council: creating the change ready organisation', which looked at the environment councils were operating in and five steps to becoming an agile organisation.

The Head of Finance and Procurement agreed to undertake a high level assessment against the performance criteria in the report and subsequently report back to the Committee.

In response to a request by Members, the Head of Finance and Procurement agreed to compile a comprehensive list of the IT packages currently used by the Council for circulation to all Councillors for their information.

### **Resolved**

- (1) That the report be approved.

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### **Risk Management - Second Quarter Review**

The Committee considered a report of the Policy and Performance Officer on the management of the Council's strategic, corporate and partnership risks during the second quarter of the 2012/3 financial year.

The Committee was advised that two corporate risks had been updated and amended since the last meeting: Member decision making and joint working. In terms of Member decision making, new regulations had been introduced regarding Executive decision making however the legislation was still in part unclear. The Committee was advised the view of legal officers was that although the risk of a decision being taken which was not in compliance with the legislation was reasonably high, the likelihood of a legal challenge being made remained low. Consequently the risk rating remained unchanged.

In terms of joint working between Cherwell District Council (CDC) and South Northamptonshire Council (SNC), the Committee was advised that as the number of shared services were progressing across the two councils, the impact of different terms and conditions of employment, and specifically pay differentials was becoming an increasing concern to employees and their trade union. Consequently it was beginning to represent a risk to both councils in relation to employee morale and productivity, and ultimately employee relations. It is not a legal risk. The Committee was assured that consideration was being given as to the best solution to address this going forward.

In response to questions from Members, the Head of Transformation clarified that the Joint Arrangements Steering Group which comprised CDC and SNC elected Members, was not a formal decision-making body rather an advisory group and its recommendations were considered by formal Council bodies.

The Committee agreed that it would be useful to include the relevant Lead Member responsible for each of the risks identified on the register.

### **Resolved**

- (1) That the Strategic, Corporate and Partnership risk register be noted.

36 **Treasury Management Report**

The Committee considered a report of the Head of Finance and Procurement on the Council's treasury management performance and compliance with the treasury management policy for the second quarter of 2012/13.

The Head of Finance and Procurement reported that at the end of October 2012, interest received on Council investments was 25% more than budgeted and showed a positive result across the In-House, TUK and Investic funds. This was due to higher than planned balances when creating the Council's budget as levels of capital slippage were higher from 2011-12, better than projected rates on the Council's investments and the change in the allocation of funds between In-House, TUK and Investec funds.

The Head of Finance and Procurement reported that the Council had reviewed its interest projection for the year and additional investment income of £250k, including the interest from the Bicester Ecotown, was projected.

The Committee was advised that the financial situation in relation to the Council's investments in Iceland had not changed and that the Council was not currently recognising the interest on its Icelandic investments.

**Resolved**

- (1) That the contents of the report be noted.

37 **External Audit Annual Certification of Claims Report**

The Committee considered a report of the Head of Finance and Procurement which allowed Members to consider the Auditors' Annual Certification Report which summarises the results of the certification work on the Council's claims and returns for 2011/12.

**Resolved**

- (1) That the contents of the report be noted.

38 **Housing Benefit and Council Tax Benefit Claims for 2010/11 and 2011/12**

The Committee considered a report of the Head of Finance and Procurement which updated Members on the actions taken following the audit of the Housing Benefit and Council Tax Benefit Claim for 2010/11 and made Members aware of the outcome of the audit of the Claim for 2011/12.

The Committee heard that the council's claim for 2010/11 had been subject to a number of adjustments. The effect of which was to increase the value of the overpayments to benefit claimants due to official errors and delays and result, the Council faced a potential reduction of its claim in excess of £400,000. However, as a result of further work with Capita, the Council was able to reduce the value of these overpayments and the Department for Work and Pensions had recovered a reduced sum of £114,753. This cost had been



shared equally with Capita and the council's contribution was £57,377 which had been met from reserves and represented a positive outcome for the Council.

The Committee was advised that the problems experienced with the audit of the claim for 2011/11 appeared to have been caused by the transition from the in-house benefits service to the outsourced contact with Capita.

As a result of the problems encountered with the claim for 2010/11 a number of learning points were identified. The Head of Finance and Procurement reported that changes had been made in relation to benefits payments to address official errors and delays, including regular in-year monitoring, quality checking of individual benefit claimants and the need to take greater care in the preparation of reports.

The Head of Finance and Procurement assured the Committee that work was underway to manage the potential risk to the welfare of the community and the council's reputation by the introduction of Universal Credit. This included presentations to Members, regular updates to the Executive, mailshots to advise those claimants affected by the Bedroom Tax, meetings with the local Landlord Forum and proactive profiling of the effects of the changes by ward.

The Head of Finance and Procurement agreed to circulate a briefing note to the Committee that highlighted the impact of the changes on council services and council's strategy to manage and respond accordingly.

### **Resolved**

- (1) That the contents of the report be noted.

39

### **Review of the Anti-Fraud and Anti-Corruption Strategy**

The Committee considered an update by the Investigation Manager on the Council's Anti-Fraud and Anti-Corruption Strategy.

The Committee heard of the 10-80-10 theory from the Investigations Manager. As a result of this, all attendees agreed that in times of economic down turn, fraud would increase as individuals sought ways to ease their financial difficulties. It also recognised that fraud within the working sector of society had increased being the sector hit hardest by the Governments strategy to reduce the National debt.

Cherwell District Council was committed to a zero-tolerance policy on fraud and would continue to participate in the National Fraud Initiative exercise.

The Head of Finance and Procurement reported that the council's subsidy would be reduced when Housing Benefit fraud matters were transferred to the Department of Work and Pensions under forthcoming welfare reforms and that the Council would need to consider funding for future anti-fraud activities

At the request of Members', the Head of Finance and Procurement agreed to report to the Committee on proposals for the funding of future anti-fraud activities in course.

**Resolved**

- (1) That the update be noted.

40 **Work Programme**

The Committee considered its Work Programme 2012/13.

The Committee heard that training sessions on the treasury strategy would be held on 23 January 2013 and on the Council's accounts in mid-June 2013.

**Resolved**

- (1) That the work programme 2012/13 be noted.

41 **Exclusion of Public and Press**

**Resolved**

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act.

42 **Treasury Management Report - Exempt Appendices 1a and 2a**

The Committee considered the exempt appendices to the report of the Head of Finance and Procurement which updated Members on the Council's investments at 31 October 2012.

**Resolved**

- (1) That the exempt appendices be noted.

The meeting ended at 8.02 pm

Chairman:

Date:

## Accounts Audit and Risk Committee

### Internal Audit Progress Report

23 January 2013

### Report of Chief Internal Auditor

#### PURPOSE OF REPORT

This report provides the Committee with an update of the work of Internal Audit since the last meeting.

This report is public
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#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report

#### Executive Summary

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##### 1.1 Introduction

This report provides the Committee with an update of the work of Internal Audit since the last meeting. It includes:

- a high level overview of final reports issued and issues raised
- CIPFA's self-assessment checklist for internal audit

##### 1.2 Proposals

No specific proposals included

##### 1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve this report and the amendments made to the audit plan.

## Background Information

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Internal Audit has undertaken work in accordance with the Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee. Progress reports are taken to this committee to outline the work performed and conclusions forged to date.

## Implications

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<b>Financial:</b>	n/a
<b>Legal:</b>	n/a
<b>Risk Management:</b>	<p>The progress of the Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors.</p> <p>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215</p>

## Wards Affected

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All

## Document Information

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Appendix No	Title
Appendix 1	Internal Audit Progress Report
<b>Background Papers</b>	
n/a	
<b>Report Author</b>	Chris Dickens, Chief Internal Auditor
<b>Contact Information</b>	07720 427215 Chris.Dickens@cherwell-dc.gov.uk

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# Internal audit summary report for Accounts, Audit and Risk Committee

*January 2013*



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# *Plan outturn*

## **2012/13 Audit Plan**

We have undertaken work in accordance with the 2012/13 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in April 2012.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed 95 days out of a total planned 160 days (59%). This is in line with the agreed profile of work within our plan as the majority of financial systems work was performed in Q3 of the financial year. We commit to completing our plan ahead of the year end.

We have continued to review our Audit Plan on an ongoing basis to ensure that it meets Cherwell District Council's ('the Council') risks. On that basis, we have made the following revisions to our audit plan as outlined below:

- Our original plan included 5 days for a review of the Council's Payroll system. We have assumed that processes will be followed consistently across Cherwell District Council and South Northamptonshire Council have scoped a joint review in this area. We have reduced the number of days to reflect this;
- Our original plan included 5 days for a review of Shared Management and Efficiency to be performed across the year and we audited this area during Q1. From discussions with Finance it has been identified that ongoing review of this area is not necessary;
- We have combined the remaining days from the Shared Management and Efficiency audit, with the remaining days from the original Payroll review (5 in total) to perform a review of Cash Collection. The Council has implemented cash kiosks at its income collection sites and requested that we review the controls and processes in place surrounding these;
- We originally scoped 10 days to perform a review of Budgetary Control. We have discussed the scope of work with Finance and agreed that 5 days is sufficient to perform a full review of this area;
- From discussions with Finance it was noted that the Council is merging its Payroll system with South Northamptonshire Council. We have included a separate review of this process as part of our internal audit plan using the days originally assigned to Budgetary Control;
- Our original plan included a 10 day review of Project and Programme Management. The nature of this work meant that it was more suited to a value enhancement piece of work. The audit plan has been adjusted to reflect this.

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# Reporting Activity and Progress

## Final reports issued

### General Ledger

We have classified our findings in this area as **Medium Risk**. The number of issues noted during 2012/13 has reduced from last year. There are however some recurring themes. These relate to:

#### *Timeliness of control operation*

- The reconciliation between the Payroll system and the General Ledger was not performed during September (*low risk*);
- The Fixed Asset Register is only reconciled to the General Ledger on an annual basis. Good practice suggests this should be performed at least quarterly (*medium risk*);
- The Council has designed guidance notes to outline General Ledger policies and procedures. This process was not complete at the time of audit (*low risk*); and
- The Authorised Signatory Listing had not been updated at the time of audit. This means that approval limits are not up to date (*low risk*).

#### *Retention of supporting documentation*

- Documentation to validate daily aged debt reconciliations is not retained (*medium risk*).

We have also included one recommendation from our 2011/12 internal audit report in the calculation of our overall risk rating. It is not possible to run a report of changes in user access levels due to the limitations of the current software.

### Creditors

We have classified our findings in this area as **Medium Risk**. Controls around raising and processing creditors payments are broadly the same as in 2011/12 - all prior year recommendations have been re-raised. The Council should ensure that effective recommendation tracking processes are put in place to monitor implementation of agreed actions.

One *high risk* issue was noted: our audit identified that no purchase order was in place for 77% of invoices received in year. Performance in this area has improved marginally from the prior year (83%) however if purchase orders continue to not be raised, there remains an increased risk that unauthorised purchases may not be identified until invoices are received. This means the Council is not able to monitor commitments unless a purchase order is posted to the system and increases the risk that the budget position is not fully understood.

#### *Low risk issues:*

- We were unable to see supporting evidence to verify the creation of 5/20 new suppliers tested. Without supporting evidence there is a risk that fraudulent suppliers are created. This was also a prior year issue;
- The Authorised Signatory Listing is out of date. We identified 4 instances where authorisation granted for transactions was not appropriate. This could mean inappropriate transactions are made;
- Two additional *low risk* issues were noted around the lack of independent reviews of reconciliations and that the finance system does not record who has receipted goods.

In both the Creditors and General Ledger reviews, we made an advisory point regarding the merger between Cherwell District Council's and South Northamptonshire Council's Finance functions. At the time of audit, there remained some minor gaps in knowledge of key processes and some differences in how key controls



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operate at each authority e.g. responsibilities of departments and credit control, purchase order raising and reconciliation review. While we do not believe this is a risk to either Council, the Finance team may find it useful to map and streamline key controls at each Council to assist management of the Finance function.

### **Housing Benefits**

We have classified our findings in this area as **Low Risk**. Housing Benefit processes have improved since last year: the Council has communicated issues noted during the 2011/12 audit to Capita to improve controls in this area and rectify the 2011/12 claim.

We have also performed a dedicated review of contact management arrangements between the Council as part of the 2012/13 audit plan. These findings have been communicated to Accounts, Audit and Risk Committee.

The following issues of non-compliance were raised:

- Segregation of duties was not maintained on 2/20 bank reconciliations tested; and
- Testing highlighted that during periods of a particular staff member's absence, planned daily checks on change of circumstances had not been performed. This was the case for 8/20 days examined.

### **Performance Management**

We classified our findings in this area as **Low Risk**. We reviewed the overall policies and procedures in place surrounding Performance Management and tested a sample of indicators, selected by the Council, against the following data quality assertions:

- Accuracy - Is the data sufficiently accurate for the intended purposes?
- Validity - Is the data recorded and used in compliance with relevant requirements?
- Reliability - Does the data reflect stable and consistent collection processes across collection points and over time?
- Timeliness - Is the data up-to-date and has it been captured as quickly as possible after the event or activity?
- Relevance - Is the data captured applicable to the purposes for which they are used?
- Completeness - Is all the relevant data included?

One *medium risk* issue was raised: under the legislative framework within the Environmental Protection Act 1990, local authorities should take all reasonable steps to investigate nuisances. The Council has set an internal target of processing nuisance cases within 8 weeks. Performance against this indicator is measured using an Access report which summarises the information stored within the Uniform database system. Testing identified one *medium risk* issue:

- The report only identifies requests which have been created and closed within the same month. Cases opened in the previous month and unresolved cases at the period end are not considered;
- The Access report does not include a detailed listing of resolved service requests. This means no supporting evidence is produced to support figures generated within the report; and
- Data can be affected by delayed data input by the Anti-Social Behaviour ('ASB') team officers. Officers often update open cases after month-end depending on when they are able to access the Uniform system to update their cases. This means results may vary depending on the day the report is run.

The Council has already begun liaising with IT to amend the parameters of the Access report so it focuses on resolution date rather than request creation date and have ensured that a detailed listing of service request

information is provided to support each period in question which can be reconciled to the Uniform system and confirm accuracy of reporting. The Council has agreed to run the report on an agreed day. This will provide consistent measurement from period to period.





Two *low risk* issues were noted relating to the relevance of data collated for the CO2 emissions performance indicator. This related to a recommendation raised in 2011/12 which had not been implemented and the format of Performance Indicator Definition Records and retention of data quality checks performed. The Council should ensure that controls are designed to challenge the data collected for reporting to ensure it supports outturn performance.

### **Project and Programme Management**

The scope of our work was to:

- Assess the approach and implementation of the new governance structure for the Place and Transformation programmes and subsequent projects;
- Review the adopted methodology and supporting processes and controls; and
- Identify any risks to the above approach and providing recommendations on any possible areas for improvement.

We have used a traffic light system to demonstrate Council performance against these areas. This review is deemed as value enhancing as part of our Internal Audit Plan and the report has not been risk rated overall. These are included to provide a summary of how the Programme Office compares with good practice and to highlight areas requiring further attention.

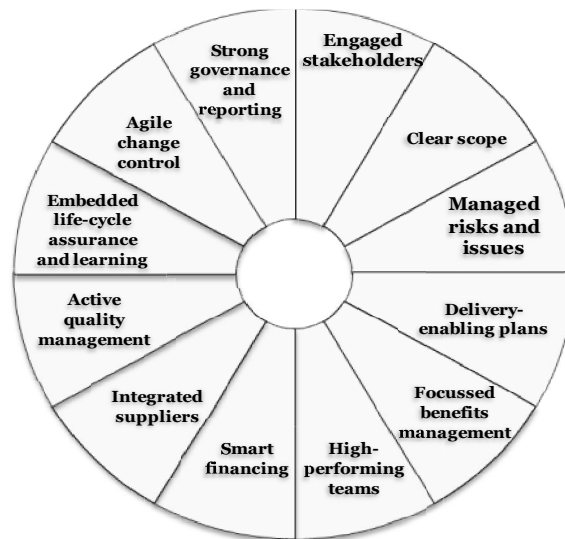
<b>Review area</b>	<b>Summary</b>	<b>RAG status</b>
Governance	The governance structure is defined and documented. The distinction between a project, programme and portfolio of projects is not always clear, which has implications on the governance structure.	 Green
Methodology	The methodology is appropriate but would benefit from a greater focus at the start up stage where project requirements and deliverables are defined.	 Green/Amber
Controls	High quality logs, supporting documents and guidance are in place for some areas of project methodology but greater controls are needed in areas such as resource management and dependency management.	 Amber
Implementation	Resourcing, skills levels and general support are impacting on the Programme Manager's ability to implement the desired governance structure, methodology and supporting controls.	 Amber / Red

### **Areas of good practice**

- The 'Project in a Box' application offers the team opportunity for transparent reporting and project quality;
- The Programme Manager has designed a number of robust and practical tools and logs to support controlled delivery of the projects and programmes;
- The new governance structure provides an inclusive programme and project management structure where Council Members can help to drive projects forward;

- All 12 elements of PwC’s model of project management excellence are covered within the methodology adopted and the Programme Office has excellent examples within certain areas e.g. benefits realisation.

**12 elements of project management excellence**



**Key Risk Areas**

- ***The methodology should be developed further at the start up phase*** - The current methodology covers all key areas of programme management but would benefit from more focus at the start where a project and its high level requirements are identified. This will help projects lacking a set of requirements and overall project aim;
- ***Some project controls are not robust*** - The Programme Manager has drafted and implemented a number of high quality controls such as logs and templates. This exercise is not yet complete with some areas needing more control tools and some areas requiring formal implementation e.g. change control, dependency management and resource management;
- ***The application of governance, methods and controls is inconsistent across the Place and Transformation programmes*** - This is due to a variety of reasons covered within this report. Projects would benefit from quality reviews and a greater drive from the SRO to use minimum standard project controls;
- ***The distinctions between work streams, projects, programmes and portfolios not clear and could be tightened*** - The projects delivered under the Programme Office are varied and complex. In some cases, the term ‘programme’, rather than ‘project’, would be more suitable. Although this may appear semantic, a clear distinction will help to identify the controls and resource levels required for each;
- ***Skills gaps within the project management team make the implementation of controls challenging*** - Project managers are from a variety of backgrounds meaning inconsistent levels of control are implemented for each project. In-house project managers would benefit from mandatory training and the use of ‘cue cards’ to describe controls and their use; and
- ***Resource gaps in the Programme Office make implementation of methodology difficult*** - The Programme Office would benefit from additional roles such as a Quality Manager, a Planning and Dependency Manager and full time Programme Office support. These additional roles could assist in the implementation of the methodology and controls and provide valuable support for the delivery of the projects.

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## **Signature Audit\***

The Council use electronic signatures and rubber stamps to authorise certain types of transactions and activity. The extent to which these methods are used and how they are being used is currently being reviewed by Finance and the Investigations Team. The purpose of this review was to evaluate policies, procedures and controls in place surrounding the issuance, use and security of electronic signatures and rubber stamps.

To achieve a level of certainty comparable to a written signature, electronic signatures and rubber stamps need to be:

- Created in a controlled environment, under the organisations sole control;
- Uniquely linked to the signatory;
- Capable of being linked to original documentation so that changes would be detectable.

We found that:

- The known use of electronic signatures and stamps is reasonable and deemed to be consistent with common use in the Public Sector. However, the Council does not have a complete record of how many stamps or signatures have been issued, meaning they do not have a complete record of electronic signatures or rubber stamps in circulation or how they are used by departments;
- The method of compilation is reasonably controlled: rubber stamps are procured through the normal accounts payable process; and electronic signatures should be requested through IT. However, rubber stamps are not kept in secure locations and access to electronic signatures is not restricted and can be access through shared drives. This could mean that signatures are used inappropriately;
- A policy and procedure should be developed to cover signatures, including how to deal with non-compliance.

This work is deemed to be value-enhancing as part of our internal audit plan and no risk rating has been assigned.

*\* We expect this report to be issued in final in the period between paper submission and Accounts, Audit and Risk Committee.*

## ***Fieldwork***

Draft reports have been issued and/or fieldwork has commenced in the following areas:

- Debtors (draft report issued);
- Dry Recycling (draft report issued);
- Planning Applications (draft report issued);
- Cash Collection;
- Budgetary Control;
- Payroll; and
- Risk Management.

# Appendix 1 – Plan Progress

Ref	Auditable Unit	Indicative number of audit days	Status/Revisions to the plan
<b>A</b>	<b>Cross-cutting Processes</b>		
A.1	General Ledger**	3	Completed.
A.2	Debtors**	3	Draft report issued.
A.3	Creditors**	3	Completed.
A.4	Payroll**	2.5	Fieldwork commenced.
A.5	Budgetary Control	5	Fieldwork commenced.
A.6	Collection Fund	5	Completed.
A.9	Housing Benefits	5	Completed.
A.13	Risk Management	5	Fieldwork commenced.
A.14	IT Transition Arrangements (Specialist) **	5	To commence in Q4.
A.14	IT Policies and Procedures (Specialist) **	5	To commence in Q4.
A.14	Disaster Recovery and Business Continuity (Specialist)**	5	To commence in Q4.
A.4	Payroll implementation	5	Scoping commenced.
A.1	Cash collection	5	Fieldwork commenced.
	<b>TOTAL</b>	<b>56.5</b>	
<b>B</b>	<b>Department Level</b>		
B.3	Finance and Procurement – Year End Support (Specialist)**	5	To commence in Q4.
B.9	Performance – Performance Management	5	Completed.
B.2	Environmental Services – Dry Recycling	5	Draft report issued.
B.6	Strategic Planning and the Environment – Planning Applications	5	Draft report issued.
B.11	Human Resources – Workforce Planning and Performance Management (Specialist)**	5	To commence in Q4.
B.7	Regeneration and Housing - Eco Town	5	To commence in Q4.
	<b>TOTAL</b>	<b>30</b>	
<b>VE</b>	<b>Value Enhancement</b>		
VE.1	Finance Business Case – Critical Friend	5	Completed.
VE.2	Contract Assurance - Capita Contract (Specialist)	10	Completed.
VE.3	Estates and Asset Management	10	Fieldwork commenced.
VE.4	Shared Management – Governance and Efficiency	2.5	Completed.
VE.5	Signature Audit	5	Completed.
VE.6	Contract Assurance – Leisure Contract	3	To commence in Q4.

VE.7	Programme Management - Project and Programme Management (Specialist) **	10	Completed.
	<b>TOTAL</b>	<b>45.5</b>	
PM	Project Management		
PM1	Follow up	5	Ongoing.
PM 2	Audit Management	23	Ongoing.
	<b>TOTAL</b>	<b>28</b>	
	<b>TOTAL PROPOSED DAYS</b>	<b>160</b>	

Where reviews have been annotated ‘\*\*\*’, these relate to processes we have assumed will be followed consistently across both Cherwell District Council and South Northamptonshire Councils. We have therefore reduced days in this area to reflect a joint review. These areas have been indicated to us through discussions with management at both Councils.

### Summary of recommendations (cross cutting and departmental only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
General Ledger	0	2	3	9	MEDIUM
Housing Benefits	0	0	2	2	LOW
Performance Management	0	1	2	5	LOW
Collection Fund	0	4	2	14	MEDIUM
Creditors	1	0	4	14	MEDIUM
<b>Total</b>	<b>1</b>	<b>7</b>	<b>13</b>	<b>-</b>	<b>-</b>

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# ***Appendix 2 – Recent PwC Publications***

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre ('PSRC') produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

## ***Under Pressure: Securing success, managing risk in public services***

Government is still in the foothills when it comes to reducing the public debt mountain and demand for public services just keeps growing. Public sector organisations must deal with overwhelming pressure to cut costs, while continuing to deliver and improve public services.

Our new book, *Under Pressure: Securing success, managing risk* is a practical guide for government on how to deliver public service reform and identify, manage and avoid failure as public services open out to new and different providers.

All publications can be read in full at [www.psrc.pwc.com/](http://www.psrc.pwc.com/).

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*In the event that, pursuant to a request which Cherwell District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers (PwC) promptly and consult with PwC prior to disclosing such report. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cherwell District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cherwell District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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# Internal audit service to Cherwell District Council – Compliance with the CIPFA code of practice for internal audit in local government in the UK (2006)

## Self-assessment at January 2013

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Where 'partial' or 'no', you should give reasons for any non-compliance, and any compensating measures in place or actions in progress to address this.

Ref	Adherence to standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	Do terms of reference: <ul style="list-style-type: none"> <li>(a) establish the responsibilities and objectives of Internal Audit?</li> <li>(b) establish the organisational independence of Internal Audit?</li> <li>(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:               <ul style="list-style-type: none"> <li>(i) those charged with governance?</li> <li>(ii) those parties to whom the Head of Internal Audit may report?</li> </ul> </li> <li>(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?</li> <li>(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?</li> <li>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</li> </ul>	X			Terms of reference are set out in the IA charter which is taken to AAR Committee

Ref	Adherence to standard	Y	P	N	Evidence
	<p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>				
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	X			Charter will be reviewed on an annual basis as part of the audit planning and risk assessment process
1.1.3	Have the terms of reference been formally approved by the organisation?	X			Approved by AAR Committee
1.1.3	Are terms of reference regularly reviewed?	X			Refer to answer above

1.2	Scope of Work				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	X			Refer to audit needs assessment and plan
1.2.3	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) agreed access rights where appropriate?	X			Not a partnership but audit plan sets out where IA provide assurance
1.3	Other Work				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and (b) resources to do this?	X			Access to PwC resources including forensic investigation team. In-house Benefits Fraud Investigation team in place
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	X			Reference made within the charter.
1.4	Fraud and Corruption				
1.4.2	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	X			Set out in CDC anti fraud and corruption policy

Ref	Adherence to standard	Y	P	N	Evidence
2	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit (operational) duties?	X X			Independence is clarified in IA Charter
2.1.2	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?	X			Independence is maintained. We do not make recommendations or take decisions in such instances.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	X			Yes reporting to Corporate Director through Head of Finance and with access to Chair of AAR Committee and Chief Executive
2.2.2	Does the Head of Internal Audit have direct access to:	X			Set out in charter and in letter of engagement and

Ref	Adherence to standard	Y	P	N	Evidence
	(a) officers? (b) members?				demonstrated in practice.
2.2.2	Does the Head of Internal Audit report in his or her own name to members and officers?	X			Refer to AAR Committee reports
2.2.3	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: (i) Internal Audit adherence to the Code is not compromised? (ii) the scope of Internal Audit is not affected? (iii) Internal Audit can continue to provide assurance for the Statement on Internal Control?	X			As detailed in IA Risk assessment and audit plan
2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	X			Report to Corporate Director through Head of Finance
2.5	Independence of Internal Audit Contractors				
2.5.1	Does the planning process recognise and tackle potential conflicts of interest where contractors also provide non-internal audit services?	X			Independence is maintained. PwC has clear policies

Ref	Adherence to standard	Y	P	N	Evidence
					on independence
2.6	Declaration of Interest				
2.6.1	Do audit staff make formal declarations of interest?	X			Each of our automated assignment files includes a step where the auditor has to declare any declarations of interest.
2.6.2	Does the planning process take account of the declarations of interest registered by staff?	X			Not arisen but we would address this issue

Ref	Adherence to standard	Y	P	N	Evidence
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	X			Through PwC methodology
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	X			Yes
3.2.1	Do internal auditors demonstrate integrity in all aspects of their work?	X			PwC Code of conduct and all staff undertake ethics training
3.3	Objectivity				
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	X			Yes
3.3.3	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?	X			No situation has arisen but we would avoid any potential conflict
3.3.4	Are staff rotated on regular/annually audited areas?	X			The career progression pathway within PwC means that auditors will

Ref	Adherence to standard	Y	P	N	Evidence
					progress to more challenging work as they gain experience and knowledge.
3.4	Competence				
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	X			Yes our approach includes a briefing with each auditor.
3.5	Confidentiality				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	X			PwC Methodology and Code of Conduct



Ref	Adherence to standard	Y	P	N	Evidence
4	Audit Committees				
4.1	Purpose of the Audit Committee				
4.1.1	Does the organisation have an independent audit committee?	X			Yes (AAR Committee)
4.2	Internal Audit's Relationship with the Audit Committee				
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	X			Includes meeting outside of committee
4.2.2	Does the committee approve the internal audit strategy and monitor progress?	X			AAR Committee minutes
4.2.2	Does the committee approve the annual internal audit plan and monitor progress?	X			AAR Committee minutes
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the	X			As above plus training being provided to Audit Committee

Ref	Adherence to standard	Y	P	N	Evidence
	audit plan, or vice versa? (f) present the annual internal audit report to the committee?				
4.2.5	Is there the opportunity for the Head of Internal Audit to meet privately with the audit committee?	X			Yes

Ref	Adherence to standard	Y	P	N	Evidence
5	Relationships				
5.1	Principles of Good Relationships				
5.1.2	Is there a protocol that defines the working relationship for Internal Audit with: (a) management? (b) other internal auditors? (c) external auditors? (d) other regulators and inspectors? (e) elected members?	X			IA Charter includes reference to relationships.
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	X			Regular contact / meetings with key stakeholders
5.2.2	Is the timing of audit work planned in conjunction with management?	X			Refer to audit plan
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	X			Subject to appropriate safeguards regarding third party

Ref	Adherence to standard	Y	P	N	Evidence
					responsibilities
5.4	Relationships with External Auditors				
5.4.2	Is it possible for Internal Audit and External Audit to rely on each other's work?	X			Refer to external audit management letter and protocol document
5.4.3	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?		X		Regular communication is being established with new EA provider
5.4.3	Are the internal and external audit plans co-ordinated?	X			Plans shared
5.5	Relationships with Other Regulators and Inspectors				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?	X			IA Charter includes reference to relationships.
5.6	Relationships with Elected Members				
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	X			IA Charter includes reference to relationships.

Ref	Adherence to standard	Y	P	N	Evidence
5.6.1	Does the Head of Internal Audit maintain good working relationships with members?	X			IA Charter includes reference to relationships.

Ref	Adherence to standard	Y	P	N	Evidence
6	Staffing, Training and Continuing Professional Development				
6.1	Staffing Internal Audit				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	X			Core team are all qualified and experienced
6.1.1	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	X			Access to all PwC resources
6.1.2	Is the Head of Internal Audit professionally qualified and experienced?	X			CIIA qualified and substantial experience
6.1.2	Does the Head of Internal Audit have wide experience of internal audit and management?	X			Over 10 years as Head of Internal Audit
6.1.3	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	X			Within PwC capabilities framework
6.2	Training and Continuing Professional Development				
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor? (b) Are individual auditors periodically assessed against these predetermined skills and competencies? (c) Are training or development needs identified and included in an appropriate ongoing development	X			Through PwC People Manager system and MyDevelopment

Ref	Adherence to standard	Y	P	N	Evidence
	programme? (d) Is the development programme recorded, regularly reviewed and monitored.				system
6.2.2	Do individual auditors maintain a record of their professional training and development activities?	X			As above

Ref	Adherence to standard	Y	P	N	Evidence
7	Audit Strategy and Planning				
7.1	Audit Strategy				
7.1.1	(a) Is there an internal audit strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	X			Audit Charter in place. Also refer to the audit risk assessment and plan.
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	X			See audit plan
7.1.3	Has the strategy been approved by the audit committee?	X			See AAR committee minutes
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisation's risk management, performance management and other assurance processes?	X			Refer to audit plan



Ref	Adherence to standard	Y	P	N	Evidence
7.2.1	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	X			Refer to audit plan
7.2.1	Are stakeholders consulted on the audit plan?	X			Refer to audit plan
7.2.2	Does the plan demonstrate a clear understanding of the organisation's functions?	X			Refer to audit plan
7.2.3	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	X X X X X X			Refer to audit plan
7.2.4	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?				Not applicable
7.2.4	Has the plan been approved by the audit committee?	X			See minutes
7.2.5	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	X			Any amendments are reported to the AAR Committee

Ref	Adherence to standard	Y	P	N	Evidence
8	Undertaking Audit Work				
8.1	Planning				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	X			Terms of reference produced and agreed in advance of audit commencement
8.1.1	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	X			See Terms of reference
8.2	Approach				
8.2.1	Is a risk-based audit approach used?	X			See audit plan
8.2.3	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	X			We operate a 'no surprises' approach.

Ref	Adherence to standard	Y	P	N	Evidence
8.2.4	Does the audit approach include a quality review process for each audit?	X			PwC methodology
8.3	Recording Audit Assignments				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	X			PwC methodology and automated working papers
8.3.1	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	X			PwC quality reviews.
8.3.2	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	X X			PwC methodology includes documentation and re-performance standards
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	X			PwC protocols for archiving of files
8.3.3	Do all retention and access policies conform to appropriate legislation, ie Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	X			Methodology complies with legislation
8.3.3	Is there an access policy for audit files and records?	X			Procedures exist to provide access to third parties when appropriate to do so.

Ref	Adherence to standard	Y	P	N	Evidence
9	Due Professional Care				
9.2	Responsibilities of the Individual Auditor				
9.2.1	<p>Are there documents that set out the requirements on all audit staff in terms of:</p> <p>(a) being fair and not allowing prejudice or bias to override objectivity?</p> <p>(b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict?</p> <p>(c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties?</p> <p>(d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions?</p> <p>(e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest?</p> <p>(f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed?</p> <p>(g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>(h) disclosing any non-compliance with these standards?</p> <p>(i) not using information they gain in the course of their duties for personal use?</p>	X			PwC ethics training and code of conduct
9.3	Responsibilities of the Head of Internal Audit				
9.3.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due	X			PwC methodology

Ref	Adherence to standard	Y	P	N	Evidence
	professional care is achieved and maintained?				
9.3.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	X			Raised through internal audit hierarchy and CDC management informed. CDC Anti-fraud and corruption processes would then be initiated.

Ref	Adherence to standard	Y	P	N	Evidence
10	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	X			Refer to audit reports
10.1.3	Has the Head of Internal Audit determined the way in which Internal Audit will report?	X			PwC methodology
10.1.4	Has the Head of Internal Audit set out the standards for internal audit reporting?	X			PwC methodology
10.1.5	Are there laid-down timescales for reports to be issued?	X			Protocol for reporting now in place
10.2	Reporting on Audit Work				
10.1.4	Do the reporting standards include: (a) format of the reports?	X			PwC methodology
10.1.4	(b) quality assurance of reports?				
10.2.2	(c) the need to state the scope and purpose of the audit?				
10.2.1	(d) the requirement to give an opinion?				
10.1.4	(e) process for agreeing reports with the recipient?				
10.2.1	(f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?				

Ref	Adherence to standard	Y	P	N	Evidence
10.2.3	Does the audit reporting process include discussion and agreement of reports?	X			See reports
10.2.4	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	X			See reports
10.2.5	Are areas of disagreement recorded appropriately?	X			See reports
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	X			See reports
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?	X			See reports
10.2.6	(a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	X			See reports
10.2.7	Does the Head of Internal Audit have mechanisms in place to ensure that:  (a) recommendations that have a wider impact are reported to the appropriate forums?  (b) risk registers are updated?	X			Yes through reporting protocols
10.3	Follow-up Audits and Reporting				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	X			Reports state follow-up requirements. Follow-up work undertaken as part

Ref	Adherence to standard	Y	P	N	Evidence
					of audit plan.
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	X			Re-reported at present. Approach being reviewed
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	X			Failure to address prior audit recommendations is reported and has impacted on our opinions.
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	X			Highlighted in annual report.
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Statement on Internal Control?	X			See annual report
10.4.2	Does the Head of Internal Audit's annual report: <ul style="list-style-type: none"> <li>(a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment?</li> <li>(b) disclose any qualifications to that opinion, together with the reasons for the qualification?</li> <li>(c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies?</li> <li>(d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control?</li> </ul>	X X X X			Refer to annual report.



Ref	Adherence to standard	Y	P	N	Evidence
	(e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets?  (f) comment on compliance with the standards of the Code?  (g) communicate the results of the internal audit quality assurance programme?	X  X  X			
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	X			Regular progress reports provided to AAR Committee

Ref	Adherence to standard	Y	P	N	Evidence
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	X			PwC Internal Audit Manual
11.1.1	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	X			Doesn't specifically refer to the Code as it is generic across all sectors. Does specify compliance with relevant standards.
11.1.1	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	X			Yes
11.1.2	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	X			Subject to PwC internal quality review arrangements
11.2	Quality Assurance of Audit Work				
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who	X			Yes

Ref	Adherence to standard	Y	P	N	Evidence
	have the appropriate skills, experience and competence?				
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audit?	X			PwC methodology
11.2.2	Does the supervisory process cover: a) monitoring progress? b) assessing quality of audit work? c) coaching staff?	X			PwC methodology
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	X			PwC quality arrangements
11.3.2	Does the performance management and quality assurance framework include as a minimum: a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress? b) user feedback obtained for each individual audit and periodically for the whole service? c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy? d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit	X			Part of PwC procedures  Individual and team objectives  Internal quality review process

Ref	Adherence to standard	Y	P	N	Evidence
	manual? e) an action plan to implement improvements?				
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	X			Client satisfaction surveys issued
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: a) meeting its aims and objectives? b) compliant with the Code? c) meeting internal quality standards? d) effective, efficient, continuously improving? e) adding value and assisting the organisation in achieving its objectives?	X			Through established protocols, IA Charter and risk assessment and planning exercise.  Internal PwC quality review process confirmed compliance.
11.3.5	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	X			Annual review against CIPFA Code
11.3.6	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	X			Annual review against CIPFA Code

## Accounts, Audit and Risk Committee

### External Audit Annual Governance Report

23 January 2013

### Report of the Chief Financial Officer and Head of Finance and Procurement

#### PURPOSE OF REPORT

To allow Members to consider the External Auditors' annual audit fee letter for 2012/13.

This report is public

#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the fee letter.

#### Executive Summary

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- 1.1 Ernst & Young have been appointed as the Council's external auditor for 2012/13. The fee letter outlines the work they propose to undertake in line with the Code of Audit Practice for this financial year.

#### Implications

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- Financial:** There are no financial effects arising from this report.  
Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.
- Legal:** There are no legal implications arising from this report.  
Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.
- Risk Management:** There are no risk issues arising from this report.  
Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.

**Wards Affected**

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All

**Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1	Annual Fee Letter
<b>Background Papers</b>	
None	
<b>Report Author</b>	Karen Curtin, Head of Finance and Procurement
<b>Contact Information</b>	01295 221551 <a href="mailto:Karen.curtin@cherwellandsouthnorthants.gov.uk">Karen.curtin@cherwellandsouthnorthants.gov.uk</a>

Sue Smith  
Chief Executive  
Cherwell District Council  
Bodicote House  
Bodicote  
Banbury  
OX15 4AA

18 December 2012

Direct line: 07769 932604

Email: [mgrindley@uk.ey.com](mailto:mgrindley@uk.ey.com)

Dear Sue

## Annual Audit Fee 2012/13

We are writing to confirm the audit work that we propose to undertake for the 2012/13 financial year at Cherwell District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2012/13. The audit fee covers the:

- ▶ audit of the financial statements;
- ▶ value for money conclusion; and
- ▶ Whole of Government Accounts.

Our fee has been set by the Audit Commission as part of the recent 5-year procurement exercise and consequently is not liable to increase in that period without a change in scope.

### Indicative audit fee

For 2012/13 the Audit Commission has set the scale fee for each audited body. The 2012/13 scale fee is based on certain assumptions, including:

- ▶ the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- ▶ we are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- ▶ the financial statements will be available to us in line with the agreed timetable;
- ▶ working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- ▶ prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.



The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the previous year.

	Indicative fee 2012/13 £	Planned fee 2011/12 £	Actual fee 2010/11 £
Total Code audit fee	66,603	114,338	118,564
Certification of claims and returns*	19,800	22,881	32,534

\*The indicative fee for 2012/13 and the planned fee for 2011/12 relate to the certification of grant claims and returns for the years ended 31 March 2013 and 31 March 2012 respectively. The certification fees for 2010/11 are the actual fees for the year ended 31 March 2011.

Any additional work that we may agree to undertake (outside the Audit Code of Practice) will be separately negotiated and agreed with you in advance.

Our audit plan for the audit of the financial statements will be issued in March 2013. This will show in detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Strategic Director of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Risk Committee.

## Billing

**The indicative audit fee will be billed in quarterly instalments of £21,600.75**

### Audit team

The key members of the audit team for 2012/13 are:

David Wilkinson  
**Partner**

[dwilkinson@uk.ey.com](mailto:dwilkinson@uk.ey.com)

Tel: 0117 981 2318

Maria Grindley  
**Director**

[mgrindley@uk.ey.com](mailto:mgrindley@uk.ey.com)

Tel: 07769 932 604

Alastair Rankine  
**Manager**

[arankine@uk.ey.com](mailto:arankine@uk.ey.com)

Tel: 07775 897 349

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint



carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Maria Grindley  
Audit Director  
Ernst & Young LLP  
United Kingdom

cc, Martin Henry, Director of Resources  
Councillor Trevor Stephens, Chair of the Audit and Risk Committee

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## 2012/13 Work Programme

Topic	Lead	23 <sup>rd</sup> Jan 2013	27 <sup>th</sup> Mar 2013	mid June 2012	end June 2013	Sep-13	Dec-13
1. Apologies for Absence and Notification of Substitute Members	Chairman of AARC						
2. Declarations of Interest	Chairman of AARC						
3. Petitions and Requests to Address the Meeting	Chairman of AARC						
4. Urgent Business	Chairman of AARC						
5. Minutes of the previous meeting	Chairman of AARC						
Training Session	Chairman of AARC and Head of Finance & Procurement	⊕		⊕			
Review of Work Programme	Chairman of AARC and Head of Finance & Procurement						
External Audit Annual Certification of Claims Report	Ernst Young						✓
External Audit Progress Update	Ernst Young	✓	✓		✓	✓	✓
External Audit Fee Letter	Ernst Young	✓					
External Audit Annual Governance Report	Ernst Young					✓	
External Audit Annual Audit Letter	Ernst Young						✓
Audit Committee Annual Report	Chairman of AARC and Head of Finance & Procurement				✓		
Internal Audit Progress Report	Chief Internal Auditor		✓		✓	✓	
Follow up on Internal Audit Report	Chief Internal Auditor						
Internal Audit Annual Plan	Chief Internal Auditor		✓				
Internal Audit Annual Report	Chief Internal Auditor				✓		
Corporate Risk Register and Risk Strategy	Corporate Performance Manger and Head of Finance & Procurement		✓				
Risk Management Update	Corporate Performance Manger and Head of Finance & Procurement		✓		✓	✓	
Anti Fraud and Corruption plus Whistle blowing Update	Head of Finance & Procurement and Fraud Manager		✓				
Protecting the Public Purse	Head of Finance & Procurement and Fraud Manager				✓		
Review of the Anti-Fraud and anti-corruption Strategy	Head of Finance & Procurement & Fraud Manager		✓		✓		
Annual Governance Statement Review	Head of Finance & Procurement			✓			
Annual Governance Statement Approval	Head of Finance & Procurement				✓	✓	
Statement of Accounts Review	Head of Finance & Procurement			✓			
Statement of Accounts Approval***	Head of Finance & Procurement				✓	✓	
Annual Report and Summary of Accounts	Head of Finance & Procurement				✓	✓	
Treasury Management Budget Monitoring & Compliance	Head of Finance & Procurement		✓		✓	✓	✓
Treasury Management Strategy & Practices	Head of Finance & Procurement		✓				
Accountancy Progress Report - Closedown	Corporate Accountant		✓				
Accounting Policies	Corporate Accountant		✓				

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