
Internal audit summary report for Accounts, Audit and Risk Committee

June 2012



Table of Contents

| | |
|--------------------------------------|---|
| Plan outturn | 3 |
| Reporting Activity and Progress | 4 |
| Appendix 1 – Plan Progress | 5 |
| Appendix 2 – Recent PwC Publications | 7 |

Plan outturn

2011/12 Audit Plan

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in March 2011. We have completed the program of internal audit work for the year ended 31 March 2012 with the exception of the following reviews:

- **Year end support (ongoing)** - We agreed the secondment of a specialist technical accountant to cover the technical accountant vacancy within the finance team for the period of March – June 2012 and to assist with the preparation of Cherwell District Council's (the 'Council') Statement of Accounts. It was agreed that the days in the internal audit plan allocated for Fixed Assets, Close Down and Local Strategic Partnership reviews would be utilised for this secondment to reflect the importance of timely and accurate preparation of accounts. The member of staff seconded from PwC has not been previously involved with the delivery of Internal Audit at the Council and is therefore sufficiently independent to perform this role.
- **Joint Management Group Systems Workshop (Deferred to 2012/13)** - Performance of our 'Group Systems' workshop for Joint Members has been delayed until a date for the next meeting of this forum is agreed. This review is deemed to be 'value enhancing' and therefore does not impact on our ability to form a year end opinion.

2012/13 Audit Plan

We are delighted that we have been reappointed as the Internal Auditors for the Council. As a result of our reappointment we have held meetings with all Directors, Heads of Service and the Chair of this Committee during March to conclude our planning for 2012/13 on a timely basis.

Reporting Activity and Progress

Final reports issued since the previous meeting

Budgetary Control

We have classified our findings in this area as **Low Risk**, which is comparable to our risk rating in 2010/11. The Council has a well established method of zero based budgeting and monitors performance against budget using a comprehensive dashboard. Three low risk issues were noted:

- Two issues related to prior year open findings and the need to update forms and procedures for virements and budget monitoring;
- One additional issue was noted in 2011/12 regarding the authorisation and timely submission of supplementary estimates. The Council should ensure supplementary estimates are processed on a timely basis and authorised appropriately to ensure that performance against budget can be monitored effectively.

Housing Benefits

We have classified our findings in this area as **Low Risk**, which is an improvement from last year.

We were asked to test in detail the Audit Commission's concerns about the 2010/11 subsidy claim. Two low risk issues were noted around incorrect claim start dates and incorrect overpayments classification. However, one medium risk issue was noted as 25% of claims tested had inaccurate earned income calculations.

The Council has communicated all errors we found to Capita for rectification for the 2011/12 claim. The Council should consider further review of the contract with Capita to ensure that suitable performance information is provided so that adverse performance is identified and rectified promptly. This area of focus will be considered in our 2012/13 audit plan.

IT Firewall Review

We performed a follow up review of issues identified in our previous review (June 2011) to determine if appropriate follow up actions have been taken by the Council to rectify issues previously identified. We have issued a **Low Risk** rating in this area. Significant improvements have been made to the control issues identified in the prior year as well as implementing a series of new controls to enhance effectiveness.

The majority of prior year recommendations have been addressed, most notably around third party firewall support, firewall configuration and management practices and staff firewall training. The Council has also implemented appropriate project management arrangements over the planned firewall migration. Our audit of the firewall configuration identified that only one redundant configuration identified in the previous audit report was still operational on the Council's internet firewall.

One medium risk was identified surrounding the shared management arrangements with South Northamptonshire Council. The Information Services team is taking on management responsibility for the South Northamptonshire Council's firewalls and associated infrastructure as part of these arrangements. As a result of this, increased capabilities and capacity will be required to meet the requirements of managing a larger more complex firewall infrastructure. We will be performing a review of IT Transition Arrangements as part of our 12/13 Internal Audit Plan.

Appendix 1 – Plan Progress

| Ref | Auditable Unit | Indicative number of audit days | Status/Revisions to the plan |
|-----------|---|---------------------------------|--|
| A | Cross-cutting Processes | | |
| A.1 | General Ledger | 5 | Fieldwork completed. Final report issued. |
| A.2 | Debtors | 5 | Fieldwork completed. Final report issued. |
| A.3 | Creditors | 5 | Fieldwork completed. Final report issued. |
| A.4 | Payroll | 5 | Fieldwork completed. Final report issued. |
| A.5 | Budgetary Control | 7 | Fieldwork completed. Final report issued. |
| A.6 | Collection Fund | 10 | Fieldwork completed. Final report issued. |
| A.7 | Cashiers | 5 | Fieldwork completed. Final report issued. |
| A.9 | Housing Benefits | 8 | Fieldwork completed. Final report issued. |
| A.10 | Fixed Assets | 5 | Days utilised for financial accountant secondment. |
| A.12 | Car Parking | 5 | Fieldwork completed. Final report issued. |
| A.14 | Risk Management/Governance (in conjunction with B.6) | 5 | Fieldwork completed. Final report issued. |
| | TOTAL | 65 | |
| B | Department Level | | |
| B.5 | Legal and Democratic Services - Transparency Agenda | 5 | Fieldwork completed. Final report issued. |
| B.6 | Strategy and Performance LDF Partnership Review | 5 | Days utilised for financial accountant secondment. |
| B.7 | Strategy and Performance -Performance Management (in conjunction with A.14) | 10 | Fieldwork completed. Final report issued. |
| B.7 | Finance – Year end | 5 | Days utilised for financial accountant secondment. |
| B.8 | Information Technology – Firewall and Disaster Recovery | 10 | Fieldwork completed. Final report issued. |
| B.9 | Information Technology- Critical Friend support | 10 | Fieldwork completed. Final report issued. |
| B.10 | Environmental Services – Trade Waste and Vehicles | 5 | Fieldwork completed. Final report issued. |
| | TOTAL | 50 | |
| VE | Value Enhancement | | |
| VE.1 | Shared Management – Validation of key milestones | 10 | Fieldwork completed. Final report issued. |
| VE.2 | Eco Town – Governance and Finance | 5 | Fieldwork completed. Final report issued. |
| VE.3 | Fraud Awareness Training | 5 | Training delivered. |

| | | | |
|------|--|--------------------|-------------------------|
| VE.4 | Shared Management – Group Systems Workshop | 10 days equivalent | To commence in 2012/13. |
| | TOTAL | 30 | |
| PM | Project Management | | |
| PM1 | Follow up | 5 | Completed |
| PM 2 | Audit Management | 30 | Completed. |
| | TOTAL | 35 | |
| | TOTAL PROPOSED DAYS | 180 | |

Summary of recommendations (cross cutting and departmental only)

| Assignment | High (10 points) | Medium (3 points) | Low (1 point) | TOTAL POINTS | Overall Risk Rating |
|--------------------------------|---------------------|----------------------|------------------|--------------|---------------------|
| Cash Collection | 0 | 1 | 2 | 5 | LOW |
| Car Parking | 0 | 1 | 1 | 4 | LOW |
| Transparency Agenda | 0 | 1 | 1 | 4 | LOW |
| General Ledger | 0 | 4 | 3 | 15 | MEDIUM |
| Collection Fund | 0 | 3 | 2 | 11 | MEDIUM |
| Payroll | 0 | 1 | 0 | 3 | LOW |
| Performance Management | 0 | 1 | 1 | 4 | LOW |
| Debtors | 0 | 2 | 0 | 6 | LOW |
| Creditors | 1 | 0 | 2 | 12 | MEDIUM |
| Risk Management | 0 | 1 | 1 | 4 | LOW |
| Trade Waste | 0 | 2 | 2 | 8 | MEDIUM |
| Housing Benefits | 0 | 1 | 3 | 6 | LOW |
| Firewall and Disaster Recovery | 0 | 1 | 1 | 4 | LOW |
| Budgetary Control | 0 | 0 | 3 | 3 | LOW |
| Total | 1 | 19 | 22 | - | - |

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.

The (Local) State we're in

Our second annual survey finds that local authorities have successfully delivered against an ambitious programme of financial savings over the last year, without any marked reduction in the quality of frontline services. It further highlights a strong level of confidence within councils about being able to repeat that performance in the year ahead. There is notable nervousness however of further financial pressures beyond the current spending review period.

There also appears to be a hardening of public attitudes towards those cuts impacting local public services. There also seems to be much more councils can and should be doing to engage local communities and individuals about the difficult choices they are facing.

Achieving savings targets

Following on from our previous survey, respondents were generally optimistic about achieving their financial savings targets for the last financial year. Over 90% of respondents expected that they would deliver at least their targeted level of savings in 2011/12; indeed just over one third were expecting to exceed their target for the year.

Managing increasing demand

By far the biggest concern for both leaders and chief executives in terms of achieving their savings targets over the next few years is the challenge of increasing demand for services. Our survey in the summer of 2011 identified a similar concern and this is potentially a major area of focus now for local councils. The fear for many is that, no matter the level of focus on transforming internal processes and operations, the sheer level of demand within the system (particularly in people-related services) will outweigh the savings that councils can secure in practice.

The future council

Both chief executives and leaders indicate a significant fear of potential future council failure – both financial and service failure. Almost 90% of chief executives and 80% of leaders believe that in the next three years one or more councils will get into serious financial difficulties, while 70% of chief executives and 80% of leaders believe that one or more councils will fail to deliver essential services.

Over recent years there has been much discussion about what the council of the future will look like - 'commissioning council', 'mutuals', 'social enterprises' and 'big society' have all entered the lexicon of local government language. While councils appear to be adopting different models, one common theme for the council of the future is that will be smaller and employ fewer staff.

Public acceptance of cuts

Leaders were more inclined than chief executives to believe that the public had accepted the savings that had been implemented, and that there had been less adverse public reaction to them. However, this view was not shared by the public, just over 40% of whom said that they fully or tend to oppose the need for savings in local public services. While almost as many said they somewhat or fully accepted the need to make savings, one in five were unsure.

Communicating with residents

Our surveys also uncovered a mismatch between the perceptions of both leaders and chief executives on the one hand, and the public themselves on the other, about how well informed the public are on the reasons councils are making savings. Over half of chief executives and three quarters of leaders said that they thought the public very or fairly well informed about the reasons that the council was planning to make savings. By contrast, only one quarter of the public thought that they were very or well informed.

All publications can be read in full at www.psrc.pwc.com/.

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.

©2012 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to the United Kingdom firm of PricewaterhouseCoopers LLP (a limited liability partnership) and other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity