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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.     | <br>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.  | <br>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. | <br>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.                      | <br>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<br>(10 points) | Medium<br>(3 points) | Low<br>(1 point) | TOTAL<br>POINTS | Overall Risk<br>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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