

Internal Audit Annual Report 2014/2015

**Cherwell District
Council**

June 2015

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Distribution List

For information:	S151 Officer
	Joint Management Team
	Members of the Accounts, Audit and Risk Committee

This document has been prepared only for Cherwell District Council and solely for the purpose and on the terms agreed with Cherwell District Council under our engagement letter engagement letter, contract and annual plan.

1. *Executive summary*

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2015.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Accounts, Audit and Risk Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Accounts, Audit and Risk Committee agreed to a level of internal audit input of 123 days, of which 109 days were delivered.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Adequate and effective	Improvement required	Major improvement required	Unsatisfactory
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There are weaknesses in the framework of governance, risk management and control which potentially put the achievement of organisational objectives at risk and there is non-compliance with controls that may put the achievement of organisational objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.

- Any reliance that is being placed upon third party assurances.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

- No high or critical risk findings individually or in aggregate per report rating.
- All findings were medium or low risk rating.

There were also two internal audit investigations that were conducted during 2014/15 financial year at the request of the Council in relation to matters identified concerning Anti-Money laundering policies and procedures and also around contractor compliance on one specific project. Following these investigations performed the Council has;

- updated the Council's anti money laundering policies and procedures;
- delivered additional anti money laundering awareness training sessions (facilitated by PwC as internal auditors); and
- reviewing how the Council captures its contracts through its contracts register and the roles and responsibilities of both procurement and service contract owners once contract awarded.

Acknowledgement

We would like to take this opportunity to thank Cherwell District Council staff, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 8 internal audit reviews. This resulted in the identification of, 8 medium and 15 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<p>In addition we have carried out the following value enhancement/specialist reviews and additional pieces of work where no risk rating has been provided.</p> <ul style="list-style-type: none"> • Graven Hill Phase 2 – Business Case Review. Our review revealed no issues relating to the Councils' controls and approach to its business case over the proposed Graven Hill development. • HCA Compliance Audit. • Two special investigations. • Anti-money laundering workshop (two sessions). • Anti-money laundering workshop (individual session with new MLRO). • Risk Management training for AARC members.
<p>Internal Control Issues</p> <p>During the course of our work we identified no high or critical risk weaknesses that we consider should be reported in the Council's Annual Governance Statement. Please refer to other weaknesses section below.</p>	
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and control, which relate to two internal audit investigations that were conducted during 2014/15 financial year at the request of the Council in relation to matters identified concerning Anti-Money laundering policies and procedures and also around contractor compliance on one specific project.</p>	<p>Following these investigations the Council has:</p> <ul style="list-style-type: none"> • updated its anti-money laundering policies and procedures; • delivered additional anti money laundering awareness training sessions (facilitated by PwC as internal auditors); and • reviewed how it captures contracts in its contracts register and the roles and responsibilities of both procurement and service contract owners once contract awarded. <p>We suggested wording based on the above for inclusion in the Annual Governance Statement for 2014/15.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified as low risk reports with no medium risks within the low risk reports for 2013/14:</p> <ul style="list-style-type: none"> • Payroll; • General Ledger; and • Treasury Management.

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year's plan.

We also include a comparison between planned internal audit activity and actual activity.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Finance Systems					
1 - General Ledger	Low	0	0	0	3
2 - Treasury	Low	0	0	0	3
3 - Payroll	Low	0	0	0	1
4 - Collection Fund (Council Tax and NNDR)	Medium	0	0	3	3
5 - Housing Benefits	Low	0	0	1	1
Risk Management / Governance	Medium	0	0	2	3
Joint Working and Transformation Programme	Low	0	0	1	0
Procurement	Low	0	0	1	1
	Total	0	0	8	15

In addition we have carried out the following value enhancement/specialist reviews and additional pieces of work where no risk rating has been provided. No significant issues were noted in these reports for consideration in the Annual Governance Statement:

- Graven Hill Phase 2 – Business Case Review. Our review revealed no issues relating to the Councils' controls and approach to its business case over the proposed Graven Hill.
- HCA Compliance Audit
- Two special investigations
- Anti-money laundering workshop (two sessions)
- Anti-money laundering workshop (individual session with new MLRO)
- Risk Management training for AARC members

Implications for management

There were two internal audit investigations that were conducted during 2014/15 financial year at the request of the Council in relation to matters identified concerning Anti-Money laundering policies and procedures and also around contractor compliance on one specific project. Following these investigations performed the Council has;

- updated the Council's anti money laundering policies and procedures;
- delivered additional anti money laundering awareness training sessions (facilitated by PwC as internal auditors); and
- reviewing how the Council captures its contracts through its contracts register and the roles and responsibilities of both procurement and service contract owners once contract awarded.

We suggested wording based on the above for inclusion in the Annual Governance Statement for 2014/15.

Direction of control travel

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>		
		<i>2014/15</i>	<i>2013/14</i>	<i>2012/13</i>
Critical	↓	0	0	0
High	↓	0	0	2
Medium	↓	8	16	18
Low	↓	15	38	30
Total	↓	23	54	50

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable, however the overall message of reducing issues is one to be highlighted.

Comparison of planned and actual activity

Audit Unit	Budgeted days	Actual days	Summary
Finance Systems <ul style="list-style-type: none"> • General Ledger (4) • Payroll (4) • Collection Fund (Council Tax and NNDR) (6) • Housing Benefits (4) • Treasury (4) 	22	28	Additional days used to clear issues and finalise reports than originally budgeted.
IT Systems (New Finance System - Civica)	7	0	<p>This was combined with the programme management time for support and input on the new finance system.</p> <p>The finance system implementation has now been delayed and as discussed and agreed with the Head of Customer Access and Head of Joint ICT Business Services we have factored into Q2 of 2015/16.</p>
Review of Corporate Costs	3	0	This has been utilised for additional time on core finance systems reviews to finalise and confirm reports.
Specific Follow Up Review	0	8	Resource used to follow up prior year recommendations and implementation progress.
Programme Management	12	0	See IT Systems above.
Risk Management / Governance	5	5	No change
IT	6	12	Utilised for additional input to cover procurement review.
Housing – Planning Applications	6		Replaced by procurement review.
Service Redesign – VfM assessments	6	0	Used for follow up assessment. See above.
Graven Hill: Phase 2 Business Case Review	0	7	Contingency used.
Joint Working and Transformation Programme	15	20	<p>These days were combined as we added additional scope into our review to cover</p> <ul style="list-style-type: none"> • Current arrangements; • Future plans; • Risk Management; and • Transformation funding
Service Redesign	5		
Year End Support	4	4	Although no issues have as yet been identified, we are holding these days for any emerging issues
Project management	25	25	No change
Contingency	7	0	Used for Graven Hill Phase 2 Review
Total	123	109	

Implications for management

The main variation in the plan is due to the original time scheduled for the planned finance system implementation. The implementations now been delayed to 1 April 2016 and as discussed and agreed with the Head of Customer Access and Head of Joint ICT Business Services we have deferred into Q2 of 2015/16 plan.

4. Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up a sample of recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Number of agreed actions	Status of agreed actions			
		Implemented	Ongoing	Outstanding	Not yet due or no longer relevant or insufficient evidence provided to confirm
General Ledger	4	1	1	0	2
Payroll	3	1	1	0	1
Collection Fund (Council Tax and NNDR)	5	0	5	0	0
Housing Benefits	2	0	2	0	0
Debtors	3	0	3	0	0
Creditors	5	2	3	0	0
Budgetary Control	2	1	1	0	0
Risk Management / Governance	5	4	1	0	0
Environmental Services**	6	0	2	0	4
Performance Management**	1	0	0	0	1
Grant Allocations	3	3	0	0	0
Programme Management – including Bicester/Banbury *	15	9	0	0	6
Totals	54	21	19	0	14

Summary

We recommend that ongoing assessment is conducted by Cherwell District Council to ensure all previously agreed recommendations are implemented at the earliest opportunity. We would also like to comment that there has been a steady improvement from prior year where few recommendations were fully implemented.

For those recommendations that are outstanding or no longer relevant, the majority within finance are due to overall delays in the new finance system implementation and management accepting the residual risk until new finance system is implemented and embedded throughout the council.

For those recommendations that are ongoing these are operating effectiveness issues (and to be addressed with new system implementation) and items that have been raised again in current year and is not around failure to implement actions agreed but an indication of controls not operating as implemented, due to be addressed through new finance system implementation or may be indicative of resource or training pressures.

* Programme management reviews have been followed up but due to the change in organisational structure and audit contacts there are differing views on previous recommendations raised. We have therefore concluded following discussions with management which recommendations have been implemented and those that we are unable to confirm from discussions and information provided or are no longer relevant.

** Where we have chased updated from the end of April and information has not been provided we have concluded that recommendations fall into the 'insufficient evidence provided to confirm'

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Accounts, Audit and Risk Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Cherwell District Council is for the period 01 March 2014 to 31 March 2015. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
Adequate and effective	<ul style="list-style-type: none"> • Generally only low risk rated weaknesses found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Accounts, Audit and Risk Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

<i>Finding rating</i>	<i>Assessment rationale</i>
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 3: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

<i>KPI</i>	<i>Target</i>	<i>Performance</i>	<i>Comments</i>
Planning			
• % of audits with Terms of Reference	100%	100%	-
• Terms of Reference agreed	100%	100%	-
Fieldwork			
• % of audits with an exit meeting	100%	100%	Some meetings were held via phone or via subsequent communications depending on nature of findings. We will continue to work with management to ensure meetings are planned on completion of the on-site work wherever possible rather than post on site work completion.
Reporting			
• Draft reports issues promptly	100% within 2 weeks of a closing meeting	>80%	Given the comments above around the nature and timing of exit meetings and some subsequent issues in issuing and clearing draft and final reports we will continue to work with management to improve the process around reporting for 2015/16.
• Critical and high risk rated reports issued to Accounts, Audit and Risk Committee	100%	N/A	No such reports required to be issued.
• Attendance at Accounts, Audit and Risk Committee	100%	100%	Meetings attended by HIA and / or Audit Manager



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