

Internal Audit Progress Report

Update to the Accounts, Audit and
Risk Committee on Internal Audit
activity

Cherwell District
Council

September 2016

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Introduction

We are committed to keeping the Accounts, Audit and Risk Committee up to date with internal audit progress and activity throughout the year. This summary has been prepared as at 8 September 2016 to update you on our activity since the last meeting of the committee and to bring to your attention matters that are relevant to your responsibilities as members of the committee.

We have also attached again for reference some of the latest publications that might be of interest to you as members of the committee (these are included in Appendix 1).

2015/16 internal audit plan

We presented our annual report to the June meeting of the committee. We are pleased to report that all prior year reports have now been finalised and two are in the process of being finalised, with delay only caused by annual leave. We will provide a verbal update on these at the committee meeting with the expectation that these will have been issued as final at that point.

There has been no change to the overall risk ratings of reviews from the information as reported in our annual report.

The following additional prior year reviews relating to the areas requested as part of the joint finance improvement plan have now also been finalised. We have summarised our key findings below.

NNDR Follow Up

Our key findings were in line with previous reports and updates received by the committee on this matter.

During our review we found that the process for calculating the NNDR figures and journals are generally strong and there is a good review process around this.

The main control weakness identified was that debtors can be raised through a journal on the ledger without any debt recovery action being triggered. The journal bypasses the standard debt recovery processes and therefore is not monitored or reported through standard aged debt review controls which comes directly from the sales ledger.

The specific transaction in question (but could also affect other transactions of a similar nature) was then not subsequently picked up and cleared through standard sales ledger processes for raising and recovering debt or through annual accounts preparation and review.

We also observed insufficient communication between finance staff which resulted in the issue not being escalated in a timely manner, exacerbated by staff turnover throughout the periods concerned.

We have recommended the Council consider the following:

- When a debtor journal is raised, a copy should be sent to the debt recovery team so it can be added to the aged debt analysis or alternatively income journals are reviewed on a monthly basis to ensure any non-reversing manual postings are appropriate.
- An annual review of debtors and recoverability is performed (and reconciled to the draft financial statements debtor balance) before the draft accounts are presented to the Accounts, Audit and Risk Committee or external audit.
- Legislation around NNDR is monitored formally on a quarterly basis for changes in regulation and legislation and any implications for current receivables and payables balances recognised.

Reconciliations Follow Up

We understood and tested the Council's key reconciliations over council tax, NNDR, creditors, debtors, payroll, cash, and income and expenditure reconciliations.

Our overall comments are:

- Reconciliations are being performed across all key areas and staff have understanding of the reconciliations being performed.
- There is a lack of standard or consistent policies and procedures for reconciliations - some have guidance notes (Council Tax, NNDR) some do not (creditors, payroll, debtors), and there is no over-arching policy or procedures for reconciliations as a whole.
- No documented summary of what the Council views as its key reconciliations (for example: by system and type) and therefore key purpose and risks these are addressing.
- Expectations around frequency and when these should be completed and reviewed (for example: if monthly within 2 weeks, weekly within 3 days and does that vary by area as different risks?).
- How completion or review is evidenced, as continued drive to move to more paperless processes (for example: comments inserted in soft copy reconciliations with follow up or actions taken when performing the reconciliations, electronic sign off or hard copy summary sheet).
- Expected escalation process (for example: to person or role by area and whether there are different escalation processes) and what things should be escalated (for example: same items reconciling for over 3 months, or above a specific value that is unusual or unexpected).

We have regularly highlighted issues and made recommendations about reconciliations across the Council's financial ledgers. Each recommendation is on its own generally low risk, but when taken together could be evidence of wider control weaknesses and breakdowns or underlying compliance issues. This is compounded by resourcing pressures- we find that the basics are the easiest and first to be forgotten but can be the most critical to the specific business processes.

2016/17 internal audit plan

We presented our plan in March and June to the committee, subsequent to that meeting we have held some additional meetings with the Chief Executive, Chief Finance Officer and two directors over a couple of days during August.

Subsequent to those meetings we have reflected and have proposed revisions to the plan to reflect these discussions and updates. We are in the process of fully working up a planned response and whether this reflects the best input and value for the Council from Internal Audit for the remainder of the 2016/17 plan.

We will update the committee at its meeting with relevant updates and proposed changes of focus to the 2016/17 plan that are being discussed.

Reviews undertaken

Given the timings of these discussions and subsequent final agreement with the Chief Finance Officer we have delayed starting the reviews that were scheduled for quarter 2, as these are now being modified in terms of focus and scope.

We have delivered the review around the planning department that was deferred from the 2015/16 plan.

Planning applications

Onsite fieldwork has been completed and is now in our review process and agreement of findings before issuing our draft report. There are no individually critical or high risk rated issues or in aggregate overall report rating, identified at present.

Additional work

NNDR 3 Agreed Upon Procedures

We were engaged to provide some additional support to supplement the Council's process for self-certification of its NNDR return.

Our work has now been completed and we have discussed the main findings with the Council. We are currently going through our internal review of the draft report and intend to issue our formal draft report in the week commencing 12 September.

There were no matters noted that would impact the return or the financial statements above an agreed threshold of £20,000 from the samples selected and any agreed extrapolation.

We will update the committee verbally at the meeting.

Fraud Workshops

We have also supported the delivery of fraud awareness workshops alongside the Councils counter fraud team on 27 July and 2 August. These were designed to support the Council in its fraud awareness programme as part of its Corporate Fraud Teams Business Plan and Strategy.

Appendix 1 – 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.

All publications can be downloaded in full at <http://www.pwc.com/gx/en/industries/government-public-services/public-sector-research-centre.html> and we have included the most relevant and recent listed below alongside this report for your further reference.

We also have a dedicated public sector twitter account with the latest information, comments or links to recent publications or blogs.

Twitter

PwC UK Public Sector
@pwc_ukgov

New publications since March 2016

Local State We’re In 2016

While the challenges that local government faces are no doubt still significant, the shift in feeling that has emerged in the sixth edition of our local government survey is one of a sector on the move; finding innovative new ways of working, looking for new opportunities and forming new partnerships.

However, as they look to 2020, the focus must be on ensuring they have the capacity and capability to deliver on their ambitions.

Beyond control – local government in the age of participation

The past five years has seen a period of unprecedented change for local authorities in the UK. Councils have been pushed to the point where they are having to ask fundamental questions about their place in society. Communities too are undergoing rapid change, and many have begun to use digital platforms to reinforce local connections and create new opportunities for participation. As is the case with forward thinking organisations in all industry sectors, the leading local authorities are already considering how best to support and harness this capacity.

The councils that will be most successful in the future will seek to take advantage of these changes by letting go of traditional approaches to control. They will focus instead on strategies to share the responsibility of leadership. They will lead by influencing and facilitating, by devolving certain functions and by developing the digital enablers that will encourage greater community participation and resilience. Our Talking Points, Beyond control, suggests five areas where councils should focus on to harness the power of participation.

Previously publications highlighted.

Full speed ahead: connecting our cities and regions

Against the backdrop of a cross-party commitment to further devolution and the prospect of new investment in major national infrastructure projects - such as HS2 and new airport and road capacity – we held a series of roundtables with transport stakeholders in both the public and private sectors across the UK, facilitating discussions with those on the frontline of policy and delivery on what is needed over the next five years to ensure a lasting step change in transportation within and between our major towns and cities.

In association with Smith Institute, this Talking Points discusses how failure to invest in a more integrated and better connected transport network could leave UK plc at a competitive disadvantage. In particular, we wanted to discover more about the scale of the issue and explore what can be done to improve connectivity between cities and regions. We've found:

- There is no 'one size fits all' solution and the future is about localised decision-making.
- Transport devolution is about more than just improving local transport systems. It is also about connecting local and city-region transport networks.
- Progressive transport planning and funding must seek to integrate transport with local and city-region plans for jobs, housing and growth. The aim is not only to improve connectivity, but to also maximise the socio-economic benefits of all types of transport investment.
- The biggest challenge now is securing the capital investment that is needed to meet future demand and/or looking for alternative sources of funding.
- When balancing the development of new projects and maintaining and improving existing transport, transport appraisal and analysis will be required in helping making key decisions.
- Connectivity between all places will continue to be critical to our future prosperity

To own or not to own: realising the value of public sector assets

The drivers of fiscal austerity will continue to frame decisions, and the ongoing reform of public services, for the rest of this Parliament.

Setting out the Spending Review, the Chancellor emphasised the importance of casting the net of efficiency widely, challenging government departments to “examine their assets and consider how they can be managed more effectively, including considering the role of privatisation and contracting out where assets do not need to be held in the public sector.”

Government has an asset base of £1,300 billion to support £700 billion of public spending. While recognising some obvious differences in objectives and function, most private sector organisations, even the most capital intensive such as oil companies, have ratios of assets to revenues of less than 1:1. Our Talking Points considers how the government and public sector can best realise the value of its assets looking towards the 2015 Spending Review – and beyond.

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