

June 2011

Cherwell District Council

Internal Audit Annual Report

Distribution List
s151 Officer Chief Executive Strategic Directors Accounts Audit and Risk Committee Leader of the Council

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Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s Annual Governance Statement (AGS). As such, the purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Accounts Audit and Risk Committee (AAR) and presented in our annual internal audit plan. As such, our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2010 to 31 March 2011

Acknowledgements

We are grateful for the assistance that was provided to us by Cherwell District Council staff in the course of our work.

Our annual opinion

Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Council's:

- risk management
- control and;
- governance processes.

Collectively we refer to all of these activities in this report as “**the system of internal control**”.

Our opinion is based on the audit work performed as set out in the 2010/11 internal audit plan agreed by the AAR in March 2010. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

Annual opinion on internal controls

It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect 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 have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

We have completed the program of internal audit work for the year ended 31 March 2011 and have identified 1 significant control weakness to be considered for inclusion in the Council's Annual Governance Statement. Our work on the Council's Firewalls identified 2 high risk issues (detailed below) around their design and configuration. We note however, that no security breaches occurred during the year, and none have been identified in recent years. However, given the significance of computer systems to the Council, we consider this control design issue to have a significant effect on the system of internal control. We recognise, however, the prompt action taken in response to the audit recommendations including the review of contracts with the firewall providers, which will address these issues.

In addition to the work in the audit plan we have provided additional support to both officers and members in respect of key issues facing the Council and the Local Government Arena (most notably in the areas of International Financial Reporting Standards and Risk Management). We look forward to continuing to support you in these areas during 2011/12.

It should be noted that we have identified areas of good practice in relation to the operation of internal control systems within Finance, HR and Legal Services and have issued High Assurance in 7 reports (see below for further details)

On the basis of our conclusions noted we can offer **MODERATE** assurance on the internal control framework of the Council. (See Appendix B for definitions) We provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.

Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The Annual Internal Audit plan was agreed with the Accounts Audit and Risk Committee in March 2010.

The results of individual audit assignments (and summary of key findings)

We set out below the results of our work in terms of the number and relative priority of findings. A number of reports are in draft stage and are awaiting management responses. These have been highlighted for reference.

Audit	Date of Fieldwork	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Assurance Reports						
General Ledger	Nov 2010	HIGH	0	0	1	4
Debtors	Nov 2010	MODERATE	0	0	2	4
Creditors	Nov 2010	MODERATE	0	1	1	2
Payroll	August 2010	HIGH	0	0	2	0
Budgetary Control	March 2011	HIGH	0	0	1	2
Collection Fund	August 2010	MODERATE	0	0	6	3
Bank Reconciliations	August 2010	MODERATE	0	0	2	2
Cashiers	July 2010	MODERATE	0	0	2	4
Treasury Management	August 2010	HIGH	0	0	2	1
Housing Benefits	Nov 2010	MODERATE	0	0	3	2
Fixed Assets	March 2011	DRAFT MODERATE	0	0	5	1
Car Parking	August 2010	MODERATE	0	0	2	3
Risk Management	March 2011	MODERATE	0	0	2	5

Partnership Working	Jan 2011	HIGH	0	0	1	3
Freedom of Information	August 2010	HIGH	0	0	1	1
Health and Safety	Nov 2010	HIGH	0	0	1	1
Job Evaluation	Nov 2010	HIGH	0	0	0	0
Anti Fraud and Whistleblowing	Oct 2010	MODERATE	0	0	2	2
Performance Management	Jan 2011	MODERATE	0	0	3	3
IT Asset Management	Feb 2011	MODERATE	0	0	2	3
IT Service	Feb 2011	MODERATE	0	1	2	0
Firewall	Feb 2011	LIMITED	0	2	3	2
<i>Support and Value Enhancement– No opinion issued</i>						
IFRS Support	No significant issues noted that would impact upon our Annual Audit Opinion					
Shared Management Business Plan						
Procurement/Contract Assurance						

Key Findings

During the year we identified only a small number of audit findings that were classed as high priority. These have been set out below:

Creditor Payments

During testing of adherence to the purchasing process we identified that the order and invoicing process is not being followed consistently. In a sample of 25 invoices tested, no purchase order was raised for 85% of cases and 5 of these were with suppliers not on the approved suppliers list. In addition testing highlighted 1 unmatched purchase order that had been outstanding since 2007.

IT Service Review

Following a ISO 20000 standard review in year, the Council identified that the Cherwell Management System (CMS), which is the current helpdesk/incident management tool, is not aligned with the Council's goals. The remedial action identified was to upgrade the current CMS to a service management system. This upgrade is critical in the process of achieving the ISO20000 certification. At the time of audit no implementation or migration plans had been put in place for this project.

Firewall Review

2 high risk issues were noted during this review of the Council's firewall procedures:

- The Councils firewalls are currently being accessed and managed in an insecure manner. Unsafe protocols and generic and shared user names are currently being used to manage the firewalls; and
- The configuration of the Council's firewalls are insufficient, increasing the risk that a security breach may occur

Results of follow-up work

We have conducted follow-up work throughout the year as part of our assignment reviews.

We are pleased to note the high number of recommendations that have been followed up. We will continue to track follow up of issues noted in 2010/11 as part of our 2011/12 audit reviews.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. 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

The assessment of controls relating to Cherwell District Council is as at 31 March 2011. Historic evaluation of effectiveness is not 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.

Responsibilities of management and of 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 have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried 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.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Accounts Audit and Risk Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Limitations in our scope

The scope of our work has not been limited in any way during the course of the year.

Access to this report and responsibility to third parties





This report has been prepared solely for Cherwell District Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
 Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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