

Internal Audit Annual Report 2012/13

FINAL

Cherwell District
Council

June 2013

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Distribution List

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.

1. *Executive summary*

Background

The relevant internal audit standards, CIPFA's Audit Code of Practice, require that the Head of Internal Audit provides a written report to the Accounts, Audit and Risk Committee, timed to inform the organisation's Annual Governance Statement. As such, the purpose of this report is to present our view on the adequacy and effectiveness of Cherwell District Council system of governance, risk management and control.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Accounts, Audit and Risk Committee should look to gain assurance. This report does not supplant the Council's responsibility for forming its own view on governance, risk management and control.

This report covers the period to the year ended 31 March 2013.

Scope

Our findings are based on the results of the internal audit work performed as set out in the Internal Audit Risk Assessment and Plan 2012/13 approved by the Accounts, Audit and Risk Committee. All changes have been outlined in our update reports taken to this committee during the year.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to CIPFA's Audit Code of Practice. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our work was designed to comply with CIPFA's Audit Code of Practice which must be followed for internal audit in local government.

Opinion

Our opinion is based solely on our assessment of whether the controls in place support the achievement of management's objectives as set out in our Internal Audit Risk Assessment and Plan and Individual Assignment Reports.

We have completed the program of internal audit work for the year ended 31 March 2013 with the exception of the following reviews, where currently in our quality assurance review process:

- Estates and Asset Management.

We have completed the program of internal audit work for the year ended 31st March 2013 with the exception of the review highlighted above. Our work identified 30 low, 18 moderate and 2 high rated findings. Based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and / or effectiveness of governance, risk management and internal control.

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

Creditors

One high risk issue was noted relating to non purchase orders. Our audit showed that no purchase order was in place for 77% of invoices received in year. Performance in this area is comparable to prior year (83%). If purchase orders are not raised, there is an increased risk that unauthorised purchases may not be identified until invoices are received. In addition, the Council is not able to fully monitor commitments unless a purchase order is posted to the system. This increases the risk that the budget position is not fully understood.

Planning Applications

One high risk issue was noted, all major cases should be authorised at Committee Level. Our audit identified that one of four major cases tested was not authorised by the Planning Committee. Instead this was delegated to the Development Control team. This case was subsequently addressed and a new permission, authorised correctly by Committee was issued. However, we feel that the case not originally being approved at Committee was a high risk finding to the Council.

A summary of our key findings is described in further detail in section 2 of this report.

On pages 4 and 5 we show the direction of travel for both individual review areas and for the number of audit recommendations in each risk category (critical, high, medium and low). This indicates that the overall control environment at the Council is comparable with the prior year.

For many of the areas reviewed in the year, the rating this year was either better or the same as last year. The number of internal audit findings and recommendations has increased slightly with a total number of 50 findings in 2012/13 compared to 42 in the previous year. Much of this increase is in the low risk category and therefore should not raise any significant concerns when comparing to prior year.

Other work ongoing

As part of the plan we will also deliver (have delivered) the following support:

- Finance year end support; and
- Regeneration and Housing - Eco Town: (review of year end return).

Since our draft annual report presented in March, we have received no confirmation of any review being required in relation to Eco-Town. We have since been requested by the Council in May to review and sign off Pioneer Places Grant (DECC) by June 2013 extended deadline. We plan to utilise these days to deliver this return.

Reviews deferred into 2013/14 Plan

The Council are currently updating their HR strategy and with the timing of the payroll implementation the following have been deferred into the 2013/14 plan where value form internal audit review will be delivered.

- Human Resources – Workforce Planning and Performance Management
- Payroll Implementation

Since our draft annual reported presented in March we have deferred the following 2012/13 IT reviews into the 2013/14 plan.

- IT Transition Arrangements
- IT Policies and Procedures

These reviews have been deferred to reflect the Council's desire to combine the IT transition arrangements with our Post Implementation Review with our project assurance team in a joint scope review. The policies and procedures review has been deferred due to change to a shared service centre, this will delivered in 2013/14 plan.

Reviews not undertaken 2012/13

The value enhancement review around the Council's leisure contract has been considered to be no longer required, given a review was undertaken within the 2011/12 plan, with no significant findings. The Council's contract assurance arrangements will be considered within 2013/14 plan within wider programme management support.

- Contract Assurance – Leisure Contract

We have used two of three days as additional support in relation to 2012/13 year end support in relation to valuations. This is reflected in the updated table on page 6 of this report.

Acknowledgement

We would like to take this opportunity to thank all audit sponsors, the Joint Management Team and members of the Accounts, Audit and Risk Committee 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 is recorded in the table below:

| <i>Description</i> | <i>Detail</i> |
|---|--|
| <p>Overview</p> <p>We completed 22 internal audit reviews. This resulted in the identification of 0 critical, 2 high, 18 medium and 30 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p> | <p>Our audit plan was scoped to address the Council's key risks and strategic objectives. We mapped each review to these areas in our 2012/13 Internal Audit plan.</p> <p>We have completed our internal audit plan in line with the set timescales and have supported the Council with their year-end close down procedures and in their assessment of fraud. We have delivered training on fraud awareness, audit committee effectiveness and risk management in year.</p> <p>Our plan included 7 "value enhancement" reviews and we have mobilised specialists in the areas of ICT and finance in year.</p> |
| <p>Internal Control Issues</p> <p>During the course of our work we identified two high risk weaknesses that the Council should consider when preparing the Annual Governance Statement.</p> | <p>Creditors</p> <p>The Council has issued a number of reminders on the importance of raising purchase orders in year. However, our audit showed that no purchase order was in place for 77% of invoices received in year. This issue was also raised in 2010/11 and 2011/12.</p> <p>Planning Applications</p> <p>All major cases should be authorised at Committee Level. Our audit identified that one of four major cases tested was not authorised by the Planning Committee. Instead this was delegated to the Development Control team. This case was subsequently addressed and a new permission, authorised correctly by Committee was issued.</p> |
| <p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and internal control, which relate to Disaster Recovery and business continuity.</p> | <p>Disaster Recovery and business continuity</p> <p>The Council has and BCM policy in place, has business impact analysis tools in place, however we raised a number of medium risk recommendations around development of these and aligning BCM arrangements in its emergency planning and wider awareness training across the Council.</p> <p>These are discrete areas and core policies and processes in place that on balance we feel these need not be reflected as a significant weakness in internal controls.</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 for 2012/13:</p> <ul style="list-style-type: none"> • Debtors; • Payroll; |

| | |
|--|--|
| | <ul style="list-style-type: none">• Budgetary Control;• Housing benefits;• Cashiers; and• Performance Management. |
|--|--|

3. Internal Audit work conducted









Introduction

Our internal audit work was conducted in accordance with our letter of engagement, CIPFA's Audit Code of Practice and the Internal Audit Risk Assessment and Plan 2012/13.

The table below sets out the results of our internal audit value protection work and implications for next year's plan. The direction of travel is also analysed so management can consider whether they should take action to reverse a trend or address stagnation.

We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

Results of individual assignments






| Audit unit | Report status | Report classification Direction of travel | Number of findings | | | |
|--|---------------|---|--------------------|------|--------|-----|
| | | | Critical | High | Medium | Low |
| General Ledger | Final | Medium  | 0 | 0 | 2 | 3 |
| Debtors | Final | Low  | 0 | 0 | 0 | 3 |
| Creditors | Final | Medium  | 0 | 1 | 0 | 4 |
| Payroll | Final | Low  | 0 | 0 | 0 | 1 |
| Budgetary Control | Final | Low  | 0 | 0 | 2 | 0 |
| Collection Fund | Final | Medium  | 0 | 0 | 4 | 2 |
| Housing Benefits | Final | Low  | 0 | 0 | 0 | 2 |
| Risk Management | Final | Medium  | 0 | 0 | 2 | 4 |
| Cash collection | Final | Low N/A | 0 | 0 | 0 | 2 |
| Environmental Services – Dry Recycling | Draft | Medium N/A | 0 | 0 | 2 | 4 |
| Strategic Planning and the Environment – Planning Applications | Final | High N/A | 0 | 1 | 3 | 3 |

| | | | | | | |
|--|-------|-------------|----------|----------|-----------|-----------|
| Performance Management | Final | Low N/A | 0 | 0 | 1 | 2 |
| Disaster Recovery and Business Continuity | Final | High N/a | 0 | 0 | 4 | 0 |
| Total | | | 0 | 2 | 18 | 30 |

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

- Finance Business Case – Critical Friend: (Final);
- Contract Assurance - Capita Contract (Specialist): (Final);
- Shared Management – Governance and Efficiency: (Final);
- Signature Audit: (Final);
- Programme Management - Project and Programme Management (Specialist): (Final);
- Estates and Asset Management: (Field work complete, Report in quality assurance process); and
- Regeneration and Housing - Eco Town (Ongoing) – Replaced by Pioneers Places Grant.

Direction of control travel

| Finding rating | Trend between current and prior year | Number of findings | | |
|----------------|---|--------------------|-----------|-----------|
| | | 2012/13 | 2011/12 | 2010/11 |
| Critical |  | 0 | 0 | 0 |
| High |  | 2 | 1 | 4 |
| Medium |  | 18 | 19 | 46 |
| Low |  | 30 | 22 | 48 |
| Total |  | 50 | 42 | 98 |

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.

Management should look to concentrate on those areas of stagnant or deteriorating performance (e.g. Budgetary Control, Risk Management and Collection Fund) to ensure that controls in these areas are improved. Actions may include raising awareness, training, increasing compliance checks or improved escalation processes.

Comparison of planned and actual activity

| <i>Audit Unit</i> | <i>Audit Type</i> | <i>Budgeted days</i> | <i>Actual days</i> | <i>Comments</i> |
|--|-------------------|----------------------|--------------------|---|
| General Ledger | Value Protection | 3 | 3 | |
| Debtors | Value Protection | 3 | 3 | |
| Creditors | Value Protection | 3 | 3 | |
| Payroll | Value Protection | 2.5 | 2.5 | |
| Budgetary Control | Value Protection | 5 | 5 | |
| Collection Fund | Value Protection | 5 | 5 | |
| Housing Benefits | Value Protection | 5 | 5 | |
| Risk Management | Value Protection | 5 | 5 | |
| IT Transition Arrangements (Specialist) | Specialist | 5 | - | Deferred to 13/14 (Q1) |
| IT Policies and Procedures (Specialist) | Specialist | 5 | - | Deferred to 13/14 (Q2) |
| Disaster Recovery and Business Continuity (Specialist) | Specialist | 5 | 5 | |
| Payroll implementation | Specialist | 5 | - | Deferred to 13/14 (Q2) |
| Cash collection | Value Protection | 5 | 5 | |
| Finance and Procurement – Year End Support (Specialist) | Specialist | 5 | 7 | To be delivered in June |
| Performance – Performance Management | Value Protection | 5 | 5 | |
| Environmental Services – Dry Recycling | Value Protection | 5 | 5 | |
| Strategic Planning and the Environment – Planning Applications | Value Protection | 5 | 5 | |
| Human Resources – Workforce Planning and Performance Management (Specialist) | Specialist | 5 | - | Deferred to 13/14 (Q2) |
| Regeneration and Housing - Eco Town | Value Enhancement | 5 | 5 | This has been replaced by review of DECC – Pioneer Places Grant |
| Finance Business Case – Critical Friend | Value Enhancement | 5 | 5 | |
| Contract Assurance - Capita Contract (Specialist) | Value Enhancement | 10 | 10 | |
| Estates and Asset Management | Value Enhancement | 10 | 10 | |
| Shared Management – Governance and Efficiency | Value Enhancement | 2.5 | 2.5 | |
| Signature Audit | Value Enhancement | 5 | 5 | |
| Contract Assurance – Leisure Contract | Value Enhancement | 3 | - | Two additional days utilised in year end support in relation to |

| | | | | |
|---|-------------------|------------|------------|--|
| | | | | additional requested valuations support. |
| Project and Programme Management (Specialist) | Value Enhancement | 10 | 10 | |
| Follow up | - | 5 | 5 | - |
| Audit Management | - | 23 | 23 | - |
| | | 160 | 139 | Total |

4. Follow up work conducted

Introduction

Within the Internal Audit Risk Assessment and Plan for 2012/13, 5 days were assigned for following up recommendations raised during previous periods in order to assess whether agreed actions had been implemented by management.

Results of follow up work

We have considered the progress made and reported this where relevant in each individual report issued throughout the year. There are no matters that we wish to specifically draw out here. We considered the following areas:

- General Ledger;
- Debtors;
- Creditors;
- Collection Fund;
- Housing Benefits;
- Budgetary Control;
- Payroll; and
- Risk Management.

Summary

We recommend that further work is conducted to ensure all previously agreed recommendations are implemented at the earliest opportunity or where now superseded cleared at the appropriate time. Issues have been re-raised in the current year where relevant.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Accounts, Audit and Risk Committee, subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed Internal Audit Risk Assessment and Plan 2012/13, which provided for 160 internal audit days. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our individual assignment reports.

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 year ended 31 March 2013. 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: 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> |



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