

Internal Audit Annual Report 2013/2014

Cherwell District
Council

June 2014

Contents

1. Executive summary	1
2. Summary of findings	3
3. Internal Audit work conducted	5
4. Follow up work conducted	11
<hr/>	
Appendices	13
Appendix 1: Limitations and responsibilities	14
Appendix 2: Basis of our classifications	15

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, contract and annual plan.

1. *Executive summary*

Background

This report outlines the work we have carried out during the year and includes the Head of Internal Audit's annual opinion on the adequacy and effectiveness of Cherwell District Council framework 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 their own view on governance, risk management and control.

This report covers the period from 1 April 2013 to 31 March 2014. The specific time period covered by our work for each individual audit is recorded in Section 3.

Scope

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required 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 Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitation of internal audit (covering both the control environment and the assurance over controls) described below and set out in Appendix 1. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.

Our findings are based upon and limited to the results of the internal audit work performed as set out in the Internal Audit Risk Assessment and Plan 2013/14 approved by the Accounts, Audit and Risk Committee on June 2013. We present our plan outturn position within this report.

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

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 2014.

Our work identified 38 low and 16 moderate 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 control.

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.

A summary of the key findings are described in further detail in sections 2 to 4 of this report.

Other work ongoing

As part of the plan we also delivered the following support:

- Finance year end support;

Reviews deferred into 2014/15 Plan

No reviews have been deferred into 14/15.

Reviews not undertaken 2013/14

All reviews planned to take place in 13/14 have been undertaken (refer to the overall outturn plan for summary of reviews completed and use of days in section 3 of this report).

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 24 internal audit reviews. This resulted in the identification of 0 critical, 0 high, 16 medium and 38 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 2013/14 Internal Audit plan.</p> <p>We have completed our internal audit plan overall in line with the set timescales and have supported the Council with their year-end close down.</p> <p>Our plan included 7 "value enhancement" and 'specialist' reviews and we have mobilised specialists in the areas of ICT, business continuity and programme management.</p>
<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.</p>	
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and control, that merit mention but do not constitute an issue that needs to be reflected within the Annual Governance Statement. These relate to the Council's Disaster Recovery and business continuity arrangements.</p>	<p>Disaster Recovery and business continuity</p> <p>We undertook a follow up on recommendations raised as part of 2012/13 review. The four recommendations were:</p> <ul style="list-style-type: none"> • Develop a formal reporting mechanism which will regularly inform the Joint Management Team on the status of the business continuity management (BCM) programme across Service Areas. • Complete Business Impact Analysis (BIA) for Service Areas to be able to develop and implement effective BCM plans. • Develop an ongoing BCM training programme to be delivered across both of the Councils. • Develop a BCM exercising programme in alignment with the current programme for emergency planning. <p>Three recommendations as set out above from our Internal Audit report submitted March 2013 have not moved forward significantly since the review. We understand this is partly because of the restructure which has taken place within both of the Councils during October 2013, meaning that the BIAs and business continuity plans (BCP) which have been completed are now out of date, and need to be updated to reflect the new internal structures.</p>

	As part of the restructure responsibility for business continuity has now been transferred internally from Transformation to the Community & Environment Directorate.
<p>Follow up</p> <p>During the year we have undertaken follow up work on previously agreed actions.</p>	<p>There are no significant issues to highlight. Further detail of our follow up work is included in section 4 of this report.</p> <p>However, there are a large number of issues that have been re-raised in the current year across the various review areas that are both operating effectiveness and control design actions. This is set in the continued back drop of transformation and ongoing redesign within services, planned finance system upgrade and ongoing IT harmonisation.</p> <p>We would emphasise the continued importance to ensure actions are implemented so that further strengthening improvements are made to the overall control environment and processes across the Council.</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"> • Debtors • Creditors • Payroll • Budgetary Control • Housing Benefits • Treasury Management • Grant Allocation

3. Internal Audit work conducted

Introduction

Our internal audit work was conducted in accordance with our letter of engagement, Public Sector Internal Audit Standards, and the Internal Audit Risk Assessment and Plan 2013/14 (which is approved annually).

The table below sets out the results of our internal audit 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 April to November 2013	Final	Low ↑	0	0	1	3
Debtors April to November 2013	Final	Low ↔	0	0	0	3
Creditors April to November 2013	Draft	Low ↑	0	0	0	5
Payroll April 2013 to February 2014	Draft	Low ↓	0	0	0	3
Budgetary Control April 2013 to February 2014	Draft	Low ↑	0	0	0	1
Collection Fund April to November 2013	Final	Medium ↑	0	0	4	1
Housing Benefits April to November 2013	Final	Low ↔	0	0	0	2
Risk Management April to November 2013	Draft	Medium ↑	0	0	1	4
Environmental Services April 2013 to March 2014	Draft	Medium ↓	0	0	4	2






Performance Management April to November 2013	Draft	Low 	0	0	1	1
Grant Allocations April 2013 to March 2014	Draft	Low N/A	0	0	1	2
Bicester Programme Management	Draft	Medium N/A	0	0	2	6
Banbury Programme Management	Draft	Medium N/A	0	0	2	5
Treasury Management April to December 2013	Final	Low N/A	0	0	0	0
Total			0	0	16	38

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

- IT Risk Diagnostic Assessment and Benchmarking (ITRD)
- Project and Corporate Risk Management (Programme Management)
- Welfare Reform (Programme Management)
- Payroll Post Implementation Review
- Joint Working Arrangements
- Business Continuity follow up on 2012/13
- Graven Hill Phase 1

Finance and Procurement Year End Support is completed in June 2014.

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2013/14	2012/13	2011/12
Critical		0	0	0
High		0	2	1
Medium		16	18	19
Low		38	30	22
Total		54	50	42

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. Payroll, Budgetary Control, Environmental Services, Debtors and Housing Benefits) 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

Ref	Audit Unit	Audit Type	Budgeted days	Actual days	Comments
1	General Ledger	Value Protection	3	4	We anticipated combining some of these reviews during delivery, however these were ultimately delivered separately and the additional days reflects the additional time involved scoping, fieldwork and reporting for separate reviews.
2	Debtors	Value Protection	3	4	
3	Creditors	Value Protection	3	4	
4	Payroll	Value Protection	3	4	
5	Budgetary Control	Value Protection	5	5	We anticipated a joint review in these areas, however these were conducted separately which reflect the additional days for scoping, fieldwork and reporting.
6	Treasury Management	Value Protection		4	
7	Collection Fund	Value Protection	3	4	We anticipated combining some of these reviews during delivery, however these were ultimately delivered separately and the additional days reflects the additional time involved scoping, fieldwork and reporting for separate reviews.
8	Housing Benefits	Value Protection	4	5	
9	Risk Management	Value Protection	8	6	We switched days from risk management to performance management after a request from management. We utilised an additional 2 days due to multiple risk and performance owners being reviewed and the additional time to co-ordinate and follow up.
10	Performance Management	Value Protection	5	9	
11	IT Risk Management	Value Enhancement/ Specialist	5	7	Replaced by ITDR review. IT diagnostic tool benchmarking IT risks in order to focus the IT reviews as part of 2014/15 plan.
12	Disaster Recovery and Business Continuity (Follow Up)	Specialist	3	3	-
13	IT Transition Arrangements	Specialist	5	6	These were deferred from the 12/13 plan and review and merged into one review and completed in
14	IT Policies and Procedures	Specialist	5		

					Q2. Findings were discussed with management no formal report issued. We have used the days elsewhere in the plan to reflect the work delivered.
15	Finance Year End Support	Value Enhancement	4	4	-
16	Grant Allocations	Value Protection	5	5	-
17	Programme Management <ul style="list-style-type: none"> • Bicester • Banbury • Project Risk Management • Welfare Reform 	Specialist Value Enhancement	20	26	We initially planned 3 pieces of support; we were requested to deliver 4 which reflect the increased days.
18	Environmental Services	Value Protection	5	7	Additional days spent on follow up testing and finalising of issues and follow up actions.
19	HR/ Payroll Implementation	Value Enhancement/ Specialist	10	10	Replaced as a Post Implementation Review following implementation in October 2013.
20	HR Employment Contracts	Value Enhancement/ Specialist	5	0	Replaced with Graven Hill – Phase 1 Review.
21	Joint Working Arrangements (Current)	Value Enhancement	10	5	We have used some of the joint working days to cover the additional days for some of the reviews above.
22	Joint Working Arrangements (planned future arrangements)	Value Enhancement	10	5	
23	Graven Hill Phase 1	Value Enhancement	0	7	Replaced HR Employment Contracts Review
	Follow up	-	5	5	-
	Contingency	-	10	0	All utilised in 13/14 plan.
	Audit Management	-	23	23	-
			162	162	

Summary of days used and re-allocated.

We have utilised all 10 contingency days that were included in the 2013/14 annual plan within the additional days for reviews 1 to 8 as per the plan summary above.

We have utilised the 5 days per review 20 in review 23, plus 2 of the 4 days from the deferred 12/13 IT review.

We have utilised the 10 joint working days across reviews 9,10,11,17 and 18 above, plus the remaining 2 days from the deferred 12/13 IT review in relation to the IT Diagnostic Tool that replaced the IT risk management review.

4. Follow up work conducted

Introduction

Within the Internal Audit Risk Assessment and Plan for 2013/14, 5 days were assigned for following up recommendations raised during 2012/13 in order to assess whether agreed actions had been implemented by management. Recommendations that were classified as critical, high, medium and/or low were followed up by testing. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Status of agreed actions		
	Actioned/ Implemented	Re-raised issues	No longer relevant
General Ledger	1	4	1
Debtors	1	2	0
Creditors	0	5	1
Payroll	1	0	0
Budgetary Control	0	1	1
Collection Fund	1	5	0
Housing Benefits	1	2	1
Risk Management	2	4	0
Environmental Services	0	5	0

There are a large number of issues that have been re-raised in the current year across the various review areas that are both operating effectiveness and control design actions. This is set in the continued back drop of transformation and ongoing redesign within services, planned finance system upgrade and ongoing IT harmonisation.

We would emphasise the continued importance to ensure actions are implemented so that further strengthening improvements are made to the overall control environment and processes across the Council.

Follow up work is not applicable for the following reviews:

- Grants Allocation
- Programme management support
- Joint Working Arrangements
- Treasury Management
- Graven Hill Phase 1
- Programme Management

- IT

This is because reviews over these areas have not been performed in 2013/14 in line with our Internal Audit Risk Assessment and Plan for the frequency of reviews to be performed, have not been reviewed in the previous year or are value enhancement reviews and not covered by scope.

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 2013/14, which provided for 24 separate internal audit reviews in 162 days. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our Individual Assignment.

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 1 April 2013 to 31 March 2014. 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>



In the event that, pursuant to a request which Cherwell District Council has 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"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, Cherwell District Council discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Cherwell District Council and solely for the purpose and on the terms agreed with Cherwell District Council in our engagement letter, contract and annual plan. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2014 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.