

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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1 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 2009 to 31 March 2010

Acknowledgements

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

2 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 2009/10 internal audit plan agreed by the AAR on 24 June 2009. 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 2010 (taking into account agreed amendments to the plan) and we can report that our work, including work in relation to risk management and governance, did not identify any significant control weaknesses that we consider to be pervasive in their effect on the system of internal control. High risk issues were identified in the reviews of Car Parking and Creditor Payments. Details are recorded in Section 3.

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 VAT claims (Fleming)). We look forward to continuing to support you in these and other areas during 2010/11.

It is encouraging to note that in a number of areas we have identified areas of good or best practice in relation to the operation of internal control systems and we have not identified any Significant Control Issues during the course of our work that warrant disclosure in your Annual Governance Statement.

On the basis of our conclusions we are able to give **MODERATE** assurance on the design, adequacy and effectiveness of the system of internal control at the Council as 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. (See Appendix B for definitions).

3 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 on 24 June 2009.

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.

Audit	Date of Fieldwork	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Assurance Reports						
General Ledger	Dec 09	MODERATE	0	0	5	7
Debtors	Jun 09	MODERATE	0	0	3	3
Creditor payments	Jun 09	MODERATE	0	1	2	1
Payroll	Jun 09	HIGH	0	0	0	1
Budgetary Cont./ Fin. accounting	Mar 10	HIGH	0	0	2	1
Council Tax	Jun 09	MODERATE	0	0	8	1
National Non Domestic Rates	Sept 09	MODERATE	0	0	7	1
Bank Reconciliations	Oct 09	HIGH	0	0	2	2
Cashiers	Jun 09	MODERATE	0	0	5	2
Treasury Management	Nov 09	HIGH	0	0	3	0
Housing Benefits	Jan 10	HIGH	0	0	2	3
Fixed Assets	Mar 10	HIGH	0	0	1	3
VAT	Jul 09	HIGH	0	0	5	1
Car Parking	Jun 09	MODERATE	0	1	4	2
Establishment Visits	Oct 09	HIGH	0	0	2	1
Partnership working	Mar 10	MODERATE	0	0	6	2
Government Connect	Jan 10	HIGH	0	0	0	2

Secure Internet						
Server Failure Follow up	Jan 10	MODERATE	0	0	6	2
LAA Indicators	Jan 10	MODERATE	0	1	2	4
Data Quality	Jun 09	MODERATE	0	0	6	7
Performance Management	Dec 09	HIGH	0	0	2	3
Anti Fraud and Corruption	Sept 09	MODERATE	0	0	6	4
<i>Ongoing Work – No Opinion Issued</i>						
IFRS Health check	No significant issues noted that would impact upon our Annual Audit Opinion					
Risk Management						
Governance						
Managing in a Downturn						
Bicester Village						

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 procurement policy we identified that on a frequent basis, officers are not adhering to set regulations, such as obtaining the required number of quotations. In a sample of 25 tested, the procurement policy had not been adhered to in 12 cases. Sufficient information could not be obtained from responsible officers in a further 5 cases.

Car Parking

The Council does not recognise Penalty Charge Notices (PCN) due as debtors on the Agresso (General Ledger) system; instead income is recognised when paid. Unpaid PCN's meet the definition of a debtor as a current obligation (fine) arising from a past event (parking transgression) and so should appear on the Councils balance sheet as such.

In both cases we were provided with assurance by management that actions would be taken to address the issues raised.

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 2009/10 as part of our 2010/11 audit reviews.

4 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 20010. 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 Summary of internal audit performance

Planned activity	Planned days	Actual days
1. Fundamental assurance		
OP1.1 General Ledger/ Fin. accounting	5	5
OP1.2 Debtors	5	5
OP1.3 Creditor payments	10	10
OP1.4 Payroll	10	10
OP1.5 Budgetary Cont./ Fin. accounting	5	5
OP1.6 Council Tax	5	5
OP1.7 National Non Domestic Rates	5	5
OP1.8 Bank Reconciliations	5	5
OP1.9 Cashiers	10	10
OP1.10 Treasury Management	5	5
OP1.11 Housing Benefits	10	10
OP1.12 Fixed Assets	5	5
OP1.13 IFRS Health check	5	5
OP1.14 VAT	5	5
OP 1.15 Car Parking	10	10
OP 1.16 Risk Management	5	5
OP 1.17 Governance	5	5
OP 1.18 Establishment Visits	5	5

Planned activity	Planned days	Actual days
2. Operational system reviews		
– risk based assurance		
OP 2.1 Partnership working	5	5
OP 2.2 Managing in a Downturn	5	5
OP 2.3 ICT audits	25	25
OP 2.4 Job Evaluation	5	0
OP 2.5 Corporate Planning	40	0
OP 2.6 CAA	40	0
OP 2.4 LAA Indicators	10	10
OP 2.5 Bicester Village	10	10
OP 2.7 Data Quality	5	5

Planned activity	Planned days	Actual days
3. Strategic Reviews		
OP 3.1 Performance Management	5	5
OP 3.2 Anti Fraud and Corruption	5	5

Planned activity	Planned days	Actual days
4. Other		
OP 4.1 General Follow Up	10	10
OP 4.3 Audit Management	30	30
OP 4.4 Contingency	5	5
TOTAL	230	230

Appendix B 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: 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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