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# Internal audit summary report for Accounts, Audit and Risk Committee

*March 2012*



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# *Plan outturn*

## **2011/12 Audit Plan**

We have undertaken work in accordance with our 2011/12 Internal Audit Plan and have agreed one change to this plan since the previous meeting. To assist with the preparation of the Council's Statement of Accounts, we have agreed the secondment of a specialist technical accountant to the finance team for the period of March-June 2012. It has been agreed that the days allocated for the Fixed Assets, Close Down and Local Strategic Partnership reviews will be utilised for this secondment to reflect the importance of timely and accurate preparation of the accounts. The member of staff seconded from PricewaterhouseCoopers LLP has not been previously involved with the delivery of Internal Audit at Cherwell District Council (CDC) and is therefore sufficiently independent to perform this role.

Our revised plan and an outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix 1. At present we have completed **160 days out of a total planned 180 days (89%)**. We have 3 reports to finalise ahead of issuing our Annual Report to the June meeting and we do not anticipate any delays in these areas. Performance of our "Group Systems" workshop for Joint Members has been delayed until a date for the next meeting of this forum is agreed. As this review is deemed "value enhancement" it does not impact on our ability to form a year end opinion.

## **2012/13 Audit Plan**

We are delighted that we have been reappointed as the Internal Auditors for Cherwell District Council. As a result of our reappointment we have been able to hold meetings with all Directors, Heads of Service and the Chair of this Committee during March to conclude our planning for 2012/13 on a timely basis. Our draft plan has been brought in full to this meeting.

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# *Reporting Activity and Progress*

## *Final reports issued since the previous meeting*

### Creditors

We have classified our findings in this area as **Medium Risk**, which is comparable to our risk rating in 2010/11. Significant efforts have been made to clear the credit note balance highlighted in prior year and at the date of audit this stood at £516. Despite work performed in this area, all issues raised in this report are prior year open findings. The Council should ensure that effective recommendation tracking processes are put in place to monitor implementation of agreed actions.

One high risk issue has been noted relating to non purchase orders. Our audit showed that no purchase order was in place for 84% of invoices received in year. In the majority of cases, these relate to purchases with small suppliers or invoices received for repairs works where it is felt that an initial cost cannot be estimated. Performance in this area is comparable to prior year (85%). 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 monitor commitments unless a purchase order is posted to the system. This increases the risk that the budget position is not fully understood.

Two low risk issues were noted around the absence of documented authorisation of payment runs and new creditors. The Council should ensure that reminders are issued to officers to improve compliance in these areas.

### Risk Management

**Low Risk.** Controls around risk management have improved from last year. The Performance Plus (P+) system is now more embedded within the Council and this has improved links between risk and performance management. In order to increase knowledge sharing and risk management training, a new steering group (the Performance and Risk Officers' Working Group) has been introduced. In addition to this, regular and detailed reports are produced for the Accounts, Audit and Risk Committee (AA&RC) and Corporate Management Team (CMT) to facilitate scrutiny of corporate risks and risk management arrangements. Internal Audit continue to work closely with the Council on risk management issues and have aided in training to both the risk working group and AA&RC.

Six of the seven issues raised in prior year have been implemented in line with the agreed timescales. No operating effectiveness issues were noted in year which implies high levels of compliance with risk management procedures.

That said, issues were noted around control of risk at a service level. The Council does not currently monitor service risks corporately and review of registers identified a number of omissions with information at this level. Further work should be performed to establish controls to provide assurance over these devolved responsibilities.

### Trade Waste

We reviewed the controls around procurement of trade waste vehicles and the processes in place for receiving income for this service. We issued a **Medium Risk** rating in this area. The controls around the procurement of waste vehicles are strong, with no issues noted during our review. All purchases tested were in line with a robust set of procedures jointly developed with central procurement and ensured that the Council has obtained good value for money in this area through obtaining a number of quotes.

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The invoice raising process is largely reliant on the corporate debt recovery team. There are controls in place around the section of the process which is administered from the Trade Waste side. Customer requests are received via the internet or the customer service team. Invoices are then raised on an invoice request form and sent to the CDRT for processing. One issue was noted around the retention of the invoice request forms.

The account setup process was also examined and issues were noted around the retention of the forms used to set up new debtors and also around the recording of new customers on the Uniform client database. It was also recommended that the Council verify new customers to Business Rates bills to ensure they are legitimate.

A further recommendation was raised around the lack of procedure notes available for account set up and invoice raising. This could lead to a loss of corporate memory if a key team member leaves the Council. The Trade Waste process uses both the Agresso financials system to invoice customers and the Uniform client database to maintain their details and recurring orders.

### **IT Business Case – Critical Friend**

We were asked to review the joint ICT working initiative between South Northamptonshire Council (SNC) and Cherwell District Council (CDC) to determine if planning is sufficiently sound to achieve the desired outcomes. This was a “value enhancement” review and as such no risk rating has been provided.

We found the programme was well designed, providing tranches of work in separate projects that build towards the realisation of longer term objectives. Overall, we found no significant issues with the development of the programme. However the following areas were under represented in the documentation:

- the need to develop new non-technical service management structures and procedures to deal with the changes in managing finance and capacity utilisation; and
- Business Continuity (BC) / IT Disaster Recovery (IT DR) planning strategy and designs that go beyond the transition stages which may influence future architecture choices.

### **Joint Management Validation**

Our plan includes a regular verification exercise of the costs and recharges associated with the Joint Management Team. As part of this review we examined the budget information and spend incurred in quarters 1-3 of 2011/12. We noted 2 minor issues with the information reported. These related to the need to reforecast the budget for redundancy costs and a minor difference in the salary of the Chief Executive. Both issues are to be corrected in the quarter 4 outturn. This was a “value enhancement” review and as such no risk rating has been provided.

### **Eco Town**

The Department for Communities and Local Government (DCLG) requires Internal Audit to comment on the controls in place around the Eco Town project. We noted no material weaknesses in Council’s processes but have made the following recommendations to management:

- A revised structure chart should be drawn up and circulated to all members of the Strategic Delivery Board (SDB);
- Regular reports showing budget to actual should be reported to the SDB to ensure effective budget monitoring of project spend; and
- Going forward, the SDB should consider approving a suite of performance indicators (qualitative and quantitative) which will enable process against key objectives to be monitored

No issues were noted with a sample of 20 expenditure items made in year using the Eco Town grant. In each case, the expenditure could be verified back to supporting documentation, was accounted for in the correct year and has been spent in accordance with the grant terms.

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## ***Fieldwork and draft reports***

Draft reports have been issued and/or fieldwork has commenced in the following areas: -

- Budgetary Control
- Housing Benefits
- Firewall follow up

# Appendix 1 – Plan Progress

Ref	Auditable Unit	Indicative number of audit days	Status/Revisions to the plan
<b>A</b>	<b>Cross-cutting Processes</b>		
A.1	General Ledger	5	Fieldwork completed. Final report issued.
A.2	Debtors	5	Fieldwork completed. Final report issued.
A.3	Creditors	5	Fieldwork completed. Final report issued.
A.4	Payroll	5	Fieldwork completed. Final report issued.
A.5	Budgetary Control	7	Fieldwork commenced.
A.6	Collection Fund	10	Fieldwork completed. Final report issued.
A.7	Cashiers	5	Fieldwork completed. Final report issued.
A.9	Housing Benefits	8	Fieldwork completed. Draft report issued.
A.10	Fixed Assets	5	Days utilised for financial accountant secondment.
A.12	Car Parking	5	Fieldwork completed. Final report issued.
A.14	Risk Management/Governance (in conjunction with B.6)	5	Fieldwork completed. Final report issued.
	<b>TOTAL</b>	<b>65</b>	
<b>B</b>	<b>Department Level</b>		
B.5	Legal and Democratic Services - Transparency Agenda	5	Fieldwork completed. Final report issued.
B.6	Strategy and Performance LDF Partnership Review	5	Days utilised for financial accountant secondment.
B.7	Strategy and Performance -Performance Management (in conjunction with A.14)	10	Fieldwork completed. Final report issued.
B.7	Finance – Year end	5	Days utilised for financial accountant secondment.
B.8	Information Technology – Firewall and Disaster Recovery	10	Fieldwork commenced.
B.9	Information Technology- Critical Friend support	10	Fieldwork completed. Final report issued.
B.10	Environmental Services – Trade Waste and Vehicles	5	Fieldwork completed. Final report issued.
	<b>TOTAL</b>	<b>50</b>	
<b>VE</b>	<b>Value Enhancement</b>		
VE.1	Shared Management – Validation of key milestones	10	Fieldwork completed. Final report issued.

VE.2	Eco Town – Governance and Finance	5	Fieldwork completed. Final report issued.
VE.3	Fraud Awareness Training	5	Training delivered
VE.4	Shared Management – Group Systems Workshop	10 days equivalent	To commence in June 2012
	<b>TOTAL</b>	<b>30</b>	
PM	Project Management		
PM1	Follow up	5	Ongoing
PM 2	Audit Management	30	Ongoing
	<b>TOTAL</b>	<b>35</b>	
	<b>TOTAL PROPOSED DAYS</b>	<b>180</b>	

### Summary of recommendations (cross cutting and departmental only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
Cash Collection	0	1	2	5	LOW
Car Parking	0	1	1	4	LOW
Transparency Agenda	0	1	1	4	LOW
General Ledger	0	4	3	15	MEDIUM
Collection Fund	0	3	2	11	MEDIUM
Payroll	0	1	0	3	LOW
Performance Management	0	1	1	4	LOW
Debtors	0	2	0	6	LOW
Creditors	1	0	2	12	MEDIUM
Risk Management	0	1	1	4	LOW
Trade Waste	0	2	2	8	MEDIUM
<b>Total</b>	<b>1</b>	<b>17</b>	<b>15</b>	<b>-</b>	

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# Appendix 2 – 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.

## *Taking Responsibility – Government and the Global CEO*

Global economic recovery appears not only fragile but also unbalanced, with developing economies still growing but more mature economies, particularly in Europe, flat-lining or facing double-dip recession.

Economic uncertainty and volatility continue to impact on business confidence to invest and grow.

Governments need to provide political leadership to lay the foundations for a stable and lasting global recovery, with fiscal austerity the order of the day.

This report assesses the changing relationship between government and business and sets out the policy and public sector delivery responses needed to address the challenging conditions businesses are facing.

### **Key findings:**

- **65%** of CEOs are concerned about governments' responses to fiscal deficits and the debt burden. Prioritisation, making tough choices and doing more for less (or increasingly the same for less) is the key to success.
- **48%** of CEOs believe the global economy will decline further in the next 12 months: indeed, only about 1 in 7 (15%) CEOs believe the global economy will improve in the next year.
- **54%** of CEOs are concerned about the availability of key skills as a threat to growth

## *Cloud Computing*

Cloud computing provides a valuable business solution to transform capabilities, deliver cost savings, gain business agility and competitive advantage. CIOs must develop a proactive strategy to leverage the benefits.

CIOs must develop a cloud computing strategy at the outset or run the risk of disparate approaches within ministries or groups.

CIOs who take a reactive, “wait-and-see” approach to developing a cloud computing strategy run the risk of having the strategy and protocol dictated onto them, leaving little room for control

## *Fighting Fraud in Government*

Since our 2009 Global Economic Crime Survey, governments around the world have taken action to address their faltering economies and this has directly impacted on those who work for, and with, the public sector.

This public sector analysis of our 2011 Global Economic Crime Survey examines the current fraud landscape, taking a close look at who is committing economic crime, what new types of fraud are emerging and how they can be addressed.

All publications can be read in full at [www.psrc.pwc.com/](http://www.psrc.pwc.com/).

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