



Internal audit summary  
report for Accounts,  
Audit and Risk  
Committee

December 2010



DISTRICT COUNCIL  
NORTH OXFORDSHIRE

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# 1. Plan Outturn

## 2010/11 Audit Plan

We have undertaken work in accordance with the 2010/11 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in March 2010. A number of changes have been made to the audit plan to reflect the changing priorities of the Council. These are summarised below:

Review	Original Days	Amendments	Revised Days
Agreed Plan	215	-	-
Sustainability	10	(10)	0
IFRS	5	3	8
Procurement	5	5	10
Joint Management Team Business Case Review	0	2	2
Performance Management	10	(5)	5
<b>Revised Plan</b>	<b>215</b>	<b>(5)</b>	<b>210</b>

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed **114 days** out of a total planned **215 days (53%)**.

## 2. Reporting and Activity Progress

### Final reports issued

Since the last Accounts, Audit and Risk Committee in September 2010, we have issued one further final report to the Council, as detailed below:

**Review of Freedom of Information and Data Protection** – We provided a HIGH assurance opinion over the approach being taken at the Authority to comply with Freedom of Information (FoI) requirements, raising one medium and one low risk issue regarding sign-off of responses and acknowledgement of FoI requests, respectively.

### Fieldwork and draft reports

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

- General Ledger;
- Debtors;
- Creditors;
- Collection Fund;
- Housing Benefits;
- Procurement;
- Health and Safety; and
- Job Evaluation.

# 3. Summary of Key Risks

## Overview

Our final reports include recommendations made in line with our risk ratings summarised in Appendix Three.

Further information is provided in the individual reports which can be produced in full if required.

At the time of this report, we have identified no issues that should be considered as significant control weaknesses.

# 4. Performance Indicators

A set of performance indicators have been agreed with officers to monitor performance of our audit contract for 2010/11. These have been detailed below for reference. Progress against performance indicators will be reported on a 6 monthly basis and therefore will be brought to this meeting in December and then in June to reflect performance to year end:

Objective	Performance Indicators PwC	Actual Performance to 2 <sup>nd</sup> December 2010	Performance Indicators OCC	Actual Performance to 2 <sup>nd</sup> December 2010
Delivering the internal audit service in an efficient manner	Delivery of programme of audits against the set audit plan.	53% of audit days delivered to date.		
	Scoping meeting held with project sponsors on all reviews.	100% of sponsors met.		
	Terms of reference for audits submitted at least 10 working days prior to the start of fieldwork.	8.2 days	Terms of Reference to be agreed (by email or hard copy) within 5 working days of receipt.	4.5 days
	Draft reports issued within 10 working days after completion of the audit.	13.1 days	Management responses to be provided within 10 working days of receipt of draft report.	11.7 days
	Final reports issued within 5 days of receipt of final management responses.	3.5 days		
Are our services addressing the issues of relevance to the Council?	Individual audit survey issued for every completed review.	6 out of 6 surveys issued.	Audit survey completed by audit sponsor for each review.	3 out of 6 returned.
	Feedback from individual audit surveys – aims to achieve an average of 3 (Good) for overall performance.	Average score of 3.4 achieved.		
	Reliance on financial control work by external audit.			

Objective	Performance Indicators PwC	Actual Performance to 2 <sup>nd</sup> December 2010	Performance Indicators OCC	Actual Performance to 2 <sup>nd</sup> December 2010
Our work has impact	All issues noted from prior year should be followed-up in year. All high/critical risk issues to be followed up within 6 weeks of issuing final report. Progress is to be reported to those charged with governance.	Follow up is ongoing. No high/critical risk issues noted to date.	Number of recommendations implemented by management.	No high/critical risk issues noted to date.
	Arrangement of 2 training sessions in year to address training needs of members/officers.	Discussions in January regarding risk training	All critical issues to be addressed within 6 weeks.	None noted to date.
We communicate with you	Attendance and presentation of progress report to all Accounts, Audit and Risk Committee meetings.	All AARC meetings attended.	Bills to be paid in line with prompt payment policy (30 days) once agreed	All agreed bills paid within 30 days.
	Quarterly meetings with contract manager.	Chief Internal Auditor and contract manager meet on a regular basis.		

# Appendix One – Plan Progress

Our schedule of work has been based upon the revised audit plan that has been presented to you in this meeting.

Planned activity	Planned days	Actual days	Status
<b>1. Fundamental assurance</b>			
General Ledger	5	4	Fieldwork Completed
Debtors	10	8	Fieldwork Completed
Creditors	5	4	Fieldwork Completed
Payroll	5	5	Final Report Issued
Budgetary Control	10	0	To be commenced
Collection Fund	15	14	Draft Report Issued
Bank Reconciliations	5	5	Final Report Issued
Cashiers	5	5	Final Report Issued
Treasury Management	10	10	Final Report Issued
Housing Benefits	10	8	Fieldwork Completed
Fixed Assets	10	0	To be commenced
IFRS	8	0	To be commenced
Car Parking	5	5	Final Report Issued
Risk Management	5	0	To be commenced
Procurement	10	7	Fieldwork Commenced
<b>TOTAL</b>	<b>118</b>	<b>75</b>	

Planned activity	Planned days	Actual days	Status
<b>2. Operational system reviews</b> – <b>risk based assurance</b>			
Partnership Working	5	0	To be commenced
Freedom of Information and Data Protection	5	5	Final Report Issued
Health and Safety	5	4	Fieldwork Completed
ICT Audits	20	3	To be commenced
Job Evaluation	5	4	Fieldwork Completed
Strategic Planning	5	0	To be commenced
<b>TOTAL</b>	<b>45</b>	<b>16</b>	
<b>3. Strategic Reviews</b>			
Anti Fraud and Whistleblowing	5	4	Draft Report Issued
Performance Management	5	0	To be commenced
Business Plan	2	2	Draft Letter Issued
<b>TOTAL</b>	<b>12</b>	<b>6</b>	
<b>4. Other</b>			
Follow Up	5	2	Ongoing
Audit Management	30	15	Ongoing
<b>TOTAL</b>	<b>35</b>	<b>17</b>	
<b>Overall Total</b>	<b>210</b>	<b>114</b>	

# Appendix Two – Finalised Reports

Assignment	High	Medium	Low	Total	Overall opinion
Bank Reconciliations	0	2	2	4	<b>MODERATE</b>
Car Parking	0	2	3	5	<b>MODERATE</b>
Cash Collection	0	3	4	7	<b>MODERATE</b>
Freedom of Information and Data Protection	0	1	1	2	<b>HIGH</b>
Payroll	0	2	1	3	<b>HIGH</b>
Treasury Management	0	2	1	3	<b>HIGH</b>
Eco Town Funding	n/a No opinion issued				
<b>Total</b>	<b>0</b>	<b>12</b>	<b>12</b>	<b>24</b>	

# Appendix Three – Risk Ratings

## Our assessment criteria are shown below:

Each of the issues identified has been categorised according to risk as follows:

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

**Overall opinion rating:**

Level of assurance	Description
<b>High</b>	No control weaknesses were identified; or Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.
<b>Moderate</b>	There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.
<b>Limited</b>	There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.
<b>No</b>	There are weaknesses in the design and/or operation of controls which, in aggregate, could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.

# Appendix Four – Internal Audit Charter

## 1. Mission and Scope of Work

The mission of internal audit is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of internal audit is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement is fostered in the Council's control process.
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately.

Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

## 2. Accountability

The Chief Internal Auditor, in the discharge of his duties, shall be accountable to management and the Accounts, Audit and Risk Committee to:

Provide annually an assessment on the adequacy and effectiveness of the Council's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

Report significant issues related to the processes for controlling the activities of the Council and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.

Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Whilst the annual internal audit report is a key element of the assurance framework required to inform the Annual Governance Statement (AGS), 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 will be agreed with the Accounts, Audit and Risk Committee at the beginning of the year and presented in the annual internal audit plan (and subsequent agreed amendments). As such, the annual internal audit 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.

The Chief Internal Auditor will agree with management a suite of performance indicators to provide for effective performance management of the internal audit function. Performance against these indicators will be reported to the Accounts, Audit and Risk Committee on a regular basis. In addition the Chief Internal Auditor will undertake an annual self-assessment of the IA function against the CIPFA Code.

### 3. Independence

To provide for the independence of internal audit, its personnel report to the Chief Internal Auditor, who reports functionally to the Accounts, Audit and Risk Committee and administratively to the Head of Legal and Democratic Services in a manner outlined in the above section on Accountability. It will include as part of its reports to the Accounts, Audit and Risk Committee a regular report on internal audit progress against the internal audit plan. In accordance with the definition of Internal Audit by the Chartered Institute of Internal Auditors and the contract with the Council, Internal Audit may at times undertake work of a consulting nature. The Chief Internal Auditor will, in conjunction with management, determine whether this falls under the Internal Audit engagement. If this is not the case separate terms of engagement will be agreed with management.

In addition to the reporting arrangements set out above, the Chief Internal Auditor also has a direct right of access to the Chief Executive and the Corporate Management Team should it be required.

### 4. Responsibility

The Chief Internal Auditor and staff of the internal audit team have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Accounts, Audit and Risk Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the Accounts, Audit and Risk Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Accounts, Audit and Risk Committee and management summarising results of audit activities.
- Keep the Accounts, Audit and Risk Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Accounts, Audit and Risk Committee.
- Assist in the investigation of significant suspected fraudulent activities within the Council in accordance with its anti fraud and corruption procedures and notify management and the Accounts, Audit and Risk Committee of the results. It is the Council's responsibility to ensure that Internal Audit is informed of any actual or suspected fraudulent activity.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Council at a reasonable overall cost.

## 5. Authority

The Chief Internal Auditor and internal audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Accounts, Audit and Risk Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialised services from within or outside the Council.

The Chief Internal Auditor and internal audit staff are not authorised to:

- Perform any operational duties for the Council or its affiliates.
- Initiate or approve accounting transactions.
- Direct the activities of any Council employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## 6. Relationships

The Chief Internal Auditor and internal audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

- **Relationships With Management**

The Chief Internal Auditor and internal audit staff will maintain effective relationships with managers of the Authority. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

- **Relationships With Other Internal Auditors**

Where it is necessary for the Chief Internal Auditor and internal audit staff to work with the internal auditors of another organisation, the roles and responsibilities of each party will be agreed. Appropriate safeguards will be put in place to ensure that third party responsibilities are clearly defined understood by all concerned.

- **Relationships With External Auditors**

Internal audit and the Audit Commission will establish a working relationship where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared. External audit are consulted as part of the internal audit planning process.

- **Relationships With Other Regulators And Inspectors**

The Chief Internal Auditor and his staff will take account of the results and reports from any inspections when planning and undertaking internal audit work. Where appropriate, the Chief Internal Auditor will establish a dialogue with representatives of the appropriate inspection agencies.

- **Relationships With Elected Members**

The Chief Internal Auditor will establish a good working relationship with members, in particular with members of the Accounts, Audit and Risk Committee. The Chief Internal Auditor has the opportunity to meet with the Chair of the Accounts, Audit and Risk Committee if desired.

## **7. Standards of Audit Practice**

Internal audit will meet or exceed the *Standards for the Professional Practice of Internal Auditing* of The Chartered Institute of Internal Auditors, The Government Internal Audit Standards (“GIAS”) and the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

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Chief Internal Auditor (PricewaterhouseCoopers LLP)

Presented to Accounts, Audit and Risk Committee

December 2010

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