

Audit and Governance Committee Agenda



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Date: 22 June 2010
Website: www.whitehorsedc.gov.uk

A meeting of the
Audit and Governance Committee
will be held on Wednesday 30 June 2010 at 6.30pm
Guildhall, Abingdon

Members of the Committee:

Councillors

Dudley Hoddinott (Chair)
Richard Farrell (Vice-Chair)
Andrew Crawford
Janet Morgan
Judy Roberts
Richard Webber

Terry Cox
Bill Melotti
Michael Murray
Robert Sharp

Any councillor may substitute

A large print version of this agenda is available. In addition any background papers referred to may be inspected by prior arrangement.

Please note that this meeting will be held in a wheelchair accessible venue. If you would like to attend and have any special access requirements, please let the Democratic Services Officers know beforehand and they will do their very best to meet your requirements.

A handwritten signature in black ink, appearing to read "M Reed".

Margaret Reed
Head of Legal and Democratic Services

Members are reminded of the provisions contained in the code of conduct adopted on 30 September 2007 and standing order 34 regarding the declaration of personal and prejudicial interests.

Agenda

Open to the Public including the Press

Map and vision

(Page 4)

A map showing the location of the venue for this meeting is attached. A link to information about nearby car parking is http://www.whitehorsedc.gov.uk/transport/car_parking/default.asp

The council's vision is to build and safeguard a fair, open and compassionate community.

1. Notification of substitutes and apologies for absence

To record the attendance of substitute councillors, if any, who have been authorised to attend in accordance with the provisions of standing order 17(1), with notification having been given to the proper officer before the start of the meeting and to receive apologies for absence.

2. Minutes

To adopt and sign as a correct record the minutes of the meeting of the committee held on 17 March 2010 (previously published).

3. Declarations of interest

To receive any declarations of personal or personal and prejudicial interests in respect of items on the agenda for this meeting.

4. Urgent business and chair's announcements

To receive notification of any matters, which the chair determines, should be considered as urgent business and the special circumstances, which have made the matters urgent, and to receive any announcements from the chair.

5. Statements, petitions and questions from the public relating to matters affecting the audit and governance committee.

Any statements, petitions and questions from the public under standing order 32 will be made or presented at the meeting.

6. Business continuity - update

(Pages 5 - 8)

To consider report 13/10 of the Head of HR, IT and Customer Services.

7. Internal audit annual report 2009/10

(Pages 9 - 22)

To consider report 14/10 of the Head of Finance.

8. Internal audit activity first quarter 2010/11

(Pages 23 - 41)

To consider report 15/10 of the Head of Finance.

9. Internal audit management report first quarter 2010/11

(Pages 42 - 46)

To receive and consider report 16/10 of the Head of Finance.

10. Treasury Management - review of activity 2009-10

(Pages 47 - 52)

To consider report 17/10 of the Head of Finance.

11. Statement of accounts 2009/10

Recommendation

To approve the 2009/10 statement of accounts for audit.

THIS IS A SEPARATELY STAPLED DOCUMENT, TO BE CIRCULATED AFTER THE AGENDA DESPATCH.

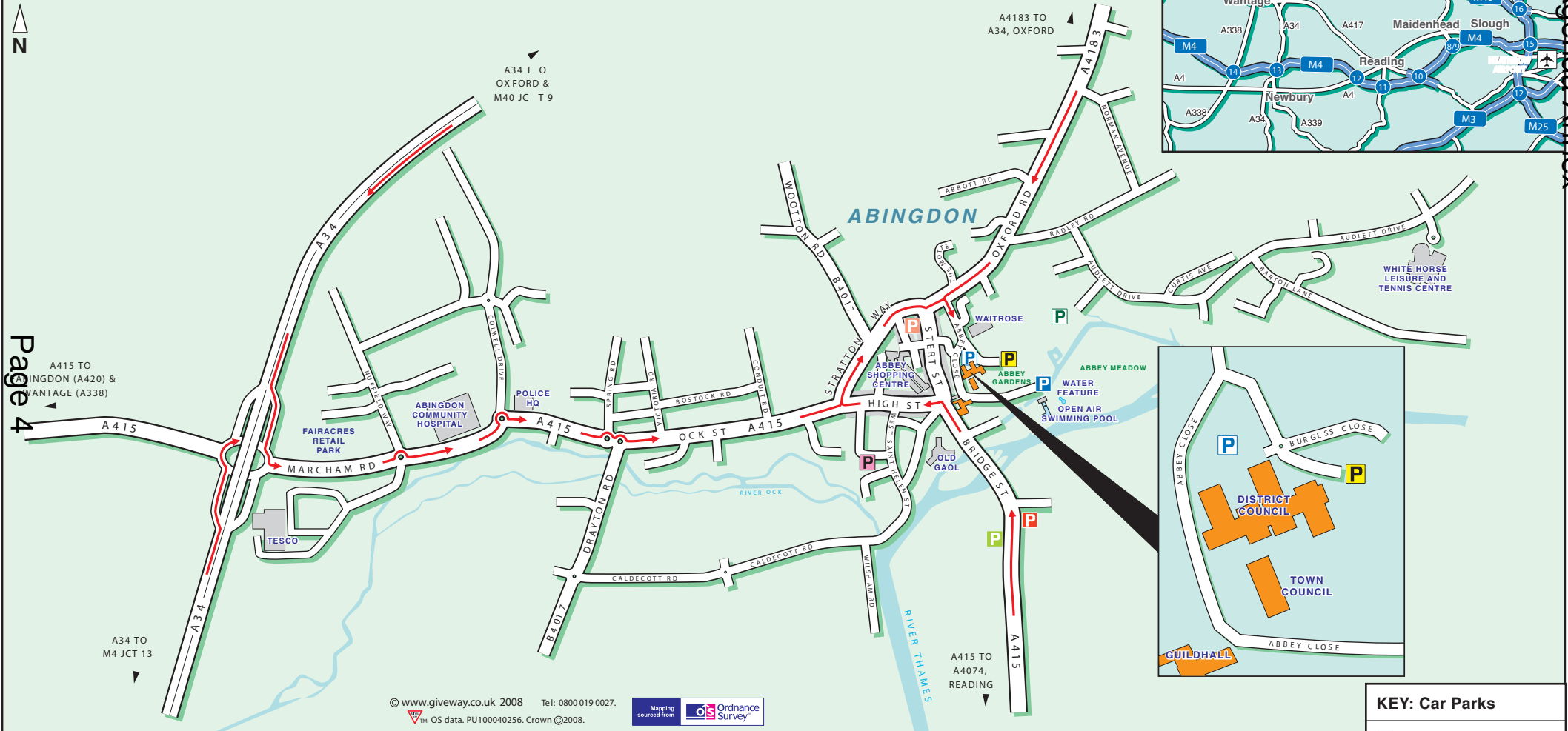
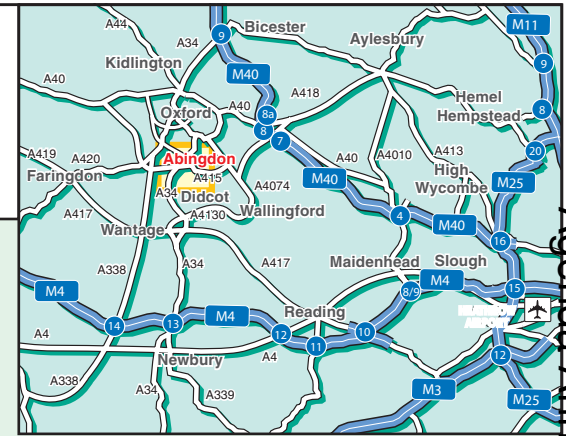
12. Audit and governance work programme

(Pages 53 - 57)

To review the audit and governance work programme.

Exempt information under Section 100A(4) of the Local Government Act 1972

None



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KEY: Car Parks

	Abbey Close
	Cattle Market
	Charter Multi-storey
	Civic
	Rye Farm
	Hales Meadow
	Audlett Drive
	West St Helen Street

By rail – the nearest main line railway stations to Abingdon are either Didcot Parkway (seven miles) or Oxford (eight miles). Radley railway station is located on the main line between Oxford and Didcot and is three miles from Abingdon town centre. For details of train times visit www.nationalrail.co.uk or call 08457 484950

By bus – there are a number of bus routes serving Abingdon town centre. For details of services and timetables, visit Oxfordshire County Council’s website at www.oxfordshire.gov.uk. Contact details for bus operators can be found on the travel information pages on our website www.whitehorsedc.gov.uk

Parking – details of car parks charges can be found on our website

Audit and Governance Committee Report



Report of Head of HR, IT & Customer Services

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To: Audit & Governance Committee

Date: 30 June 2010

Report no. 13/10

Business continuity update

Recommendations

That the Audit and Governance committee:

- a) notes the progress made in developing and improving business continuity arrangements to meet the needs of shared working between South and Vale and the associated revised management structure.
- b) considers and approves the revised reporting frequency of business continuity and risk management updates.

Purpose of Report

1. The purpose of this report is to provide committee with an update on our business continuity arrangements.

Relationship with corporate plan

2. Having effective business continuity arrangements in place will help the councils in meeting their shared strategic objective of 'managing our business effectively'.

Background

3. In compliance with the Civil Contingencies Act 2004 and accompanying regulations, we are required to 'assess the risk of an emergency occurring and to maintain plans for the purpose of ensuring that if an emergency occurs, the councils are able to perform their functions'. In other words, we need to ensure that we would be able to continue to deliver our services to residents in the event of a disruption.

4. Following management team's decision to rationalise South and Vale's approach to business continuity, we produced a joint business continuity strategy and presented it to this committee. Executive approved it on 5 February 2010. The reporting timetable brought to this committee in September 2009 requires us to provide update reports on our business continuity arrangements every six months.

Progress to date

5. Following the fourth tier management restructure, it was evident that the existing business continuity plans needed a complete update. To address this, we conducted a council wide business impact assessment (BIA). The purpose of this assessment was to differentiate between critical (urgent) and non-critical (non-urgent) organisation functions/activities, given that the council will never have sufficient resources to restore everything immediately, or it would be too costly to maintain such back-up services.
6. We involved service managers and heads of service in the BIA to ensure we had a council wide view of all our functions. Through a series of workshops we identified the critical activities of each service, the recovery resources required (people, workspaces, IT systems and equipment) and we also gathered additional data to inform each of the plans such as names of the members of the business recovery team. We also prioritised each function by assessing how quickly we would need to restore it in the event of a disruption. This assessment took into account the needs of the public and the timescale on which the service is normally delivered. For example, the assessment concluded that the council's benefits service needed to be restored within 2 days, whereas the determination of planning applications should be recovered within 5 days, given that this is a small proportion of the normal eight week period and would not cause immediate hardship to residents.
7. Since completing the BIA we have made significant progress and have:
 - drafted business continuity plans for each of the services containing the results from the business impact assessment
 - designated plan owners (head of service) in place for each service with their own business recovery teams
 - appointed plan administrators for each service to co-ordinate the quarterly reviews
 - started work on creating a joint crisis management plan
 - produced two flowcharts, one for the strategic crisis team to follow should the plans need to be invoked and one for plan owners to follow should this happen
 - automated the updating of staff contact details through the HRPro system (which contains the council's employee records), ensuring the details remain confidential.

Next steps

8. In order to implement the strategy fully, we now need to refresh the 'detailed business continuity arrangements' document. The need for this document arises because unlike the strategy, which is available to the public, this document is not for publication as it contains detailed information in relation to our arrangements which could be compromised if they were publicly known.
9. Also, as some of our services are outsourced it is important that the business continuity arrangements of our suppliers are part of our plan. We do have a policy, implemented for new contracts during the tendering process, that requires key suppliers to have business continuity arrangements in place. The pre-qualification questionnaire used for all major

procurements asks suppliers for details of their business continuity arrangements and we assess this information as part of the tender evaluation. We consider it necessary to introduce a process where we have the details of suppliers' arrangements available for review at any time and intend to develop this process in the next few months.

10. We are working with the plan owners of our own business continuity plans and the Strategic Crisis Team (owners of the crisis management plan) to fully embed our own business continuity arrangements within the council, so that everyone in this team is aware of whether and when to invoke the crisis management plan and what everyone then needs to do. We are also planning a training event to ensure the Strategic Crisis Team is aware of when and how to implement the crisis management plan if the need arises.
11. To make sure our plans are viable and staff are rehearsed in the role they may need to take in the event of a disruption, we will carry out an annual test of the plans. We are currently researching any good practice in this area and intend to develop a testing schedule that will demonstrate the effectiveness of our arrangements, but without causing major disruption to services while the test is in progress. Previously, management team has decided not to carry out a 'live' test (e.g. by temporarily closing the building) as this would be too disruptive to residents. However, we are now considering the use of 'walk-through' simulated disruptions.

IT disaster recovery

12. The aim of this is to restore essential computers, systems and telephony services, either on-site or at a remote disaster recovery site in the event of a disruption. Depending on the nature and duration of the disruption, the council could experience downtime for a number of days. The council has an IT disaster recovery plan which is managed by the IT operations team.
13. The council, along with South, has a contract with Adam Continuity (a specialist provider of disaster recovery services) who will provide us with replacement IT hardware e.g. computers, telephones and cabling, through their mobile 'Ship-to-Site' service in the event of a disruption. We can specify where the hardware is set up and use it for up to 16 weeks following a disruption. The decision on the set up location can only be taken when the exact nature and extent of the disruption has been ascertained.
14. Management team has decided that a full scale live test of our disaster recovery (or business continuity) arrangements would be potentially too disruptive to public services, so our contract with Adam Continuity includes five test days per year, which allows us to test our disaster recovery plan in a controlled environment. We performed an IT disaster recovery test in October 2008 and we will test the plan again in quarter three of 2010/11.
15. In April 2009, internal audit completed a review of our disaster recovery arrangements and issued a 'full assurance' opinion meaning that they consider there to be 'a sound system of internal control designed to meet the system objectives and the controls are being constantly applied'. One of the objectives of the review was to ensure that we periodically tested the disaster recovery plan for its relevance and effectiveness, and we identified training needs / recovery weaknesses and dealt with them appropriately. Although two low risk recommendations were made following the review, neither related to the testing of the disaster recovery plan.

16. In their report, internal audit stated that adequate briefing meetings prior to the test exercise could be evidenced with key officers and their responsibilities being identified within the briefing documents. Adam Continuity and IT produced the test rehearsal reports following completion of the test exercises that provided an overview of the test, the results of the recovery and identified issues and resolutions.
17. The above arrangements demonstrate that there are effective IT disaster recovery arrangements in place.

Revised reporting frequency

18. Over the last year we have embedded risk management and business continuity within the council's processes, and improved efficiency by harmonising arrangements between the two councils. As this process is almost complete, and both risk management and business continuity follow an annual cycle, we propose to change the reporting frequency to one report on each subject per year.

Financial, legal and any other implications

19. There are no financial or legal implications arising from this report, other than to note that by having business continuity arrangements in place, the council is meeting its obligations under the Civil Contingencies Act 2004.

Conclusion

20. We have made significant progress in updating our existing business continuity plans by carrying out a business impact assessment. The assessment took into account the recent management restructures and captured all critical activities of the council. As a result, we have an up to date business continuity plan for each service.
21. Work is currently ongoing to create a joint crisis management plan and there is guidance available to the Strategic Crisis Team and plan owners should the plans be invoked. The planned training event will ensure that the Strategic Crisis Team will know when and how to implement the crisis management plan should the need arise.

Recommendation

22. We invite Audit and Governance committee to note the progress made in developing and improving business continuity arrangements to meet the needs of shared working between South and Vale and the associated revised management structure.
23. We invite Audit and Governance committee to consider and approve the revised reporting frequency of business continuity and risk management updates.

Accompanying papers: None

Audit and Governance Committee report



30 June 2010

Report of **Audit Manager**

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To: Audit and Governance Committee

DATE: 30 June 2010

Report no. 14/10

Wards Affected
All

Internal audit annual report 2009/2010

Recommendation

The Committee is asked to note the report.

Purpose of Report

1. The purpose of this report is to report on the work of internal audit in the year ended 31 March 2010, and to advise the committee of the head of finance's opinion on the overall adequacy and effectiveness of the internal control environment.

Strategic Objectives

2. To assist the Council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

Background

3. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (CIPFA Code) states that the head of internal audit (audit manager) must produce an annual report that:

- includes his or her opinion on the overall adequacy and effectiveness of the organisation's control environment;
 - discloses any qualifications to that opinion, together with the reason(s) for the qualification;
 - presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the head of internal audit judges particularly relevant to the preparation of the Statement of Internal Control (now Annual Governance Statement);
 - compares the work actually undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets; and
 - comments on compliance with the CIPFA standards and communicates the result of the internal audit quality assurance programme.
4. The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
- establishing and monitoring the achievement of the organisation's objectives;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - ensuring risk management is embedded in the activity of the organisation, that leadership is given to the risk management process, and staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the organisation and the reporting of financial management; and
 - the performance management of the organisation and the reporting of performance management.

Overall Opinion

5. The head of finance is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of Vale of White Horse District Council's risk management, control and governance processes. The head of finance's opinion is based on the risk-based audits carried out during the year and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.
6. It is the head of finance's **unqualified** opinion that satisfactory assurance can be placed on the Council's risk management, control and governance processes. There is basically a sound system of internal control but there are some weaknesses which may put some system objectives at risk.
7. Based on the scope of our reviews, the one area that was given full assurance was Facilities Management. Noted improvements in this financial year were seen in some areas of the Housing and Council Tax Benefits service. Areas of weakness in the control environment have been identified and improvement actions agreed in the following areas: Brown Bins, Creditor Payments, Payroll, Proactive Anti-Fraud Review, Records Management, Housing and Council Tax Benefit Overpayments, S106 Commuted Sums and VFM in Procurement. Where Internal Audit identified

weaknesses which require remedial action, recommendations have been made and discussed with officers.

8. Notwithstanding the head of finance's overall opinion, internal audit identified a number of opportunities for improving controls and procedures across the Council which officers have generally responded to positively.
9. A summary of all internal audit opinions is attached as **Appendix 1**.

Summary of Audit Work

10. For 2009/2010, Internal Audit completed 645 audit work days. 304.25 days for South Oxfordshire District Council and 340.75 days for the Vale of White Horse District Council. This includes planned audit work, consultancy work and contingency work (i.e. investigations).
11. A total of 51 internal audit reviews have been undertaken with a total of 38 planned audits being completed within 2009/2010. A further 12 reports are pending finalisation 6 of which are at draft report stage and 6 audits are still in progress. From those, 26 relate to Vale of White Horse District Council and 6 out of the 12 in progress relate to VWHDC. From the 23 completed/ draft audits, 1 (4%) achieved a full assurance rating. In most cases (13.5 audits / 59%) a satisfactory assurance rating was achieved. Limited assurances were appropriate for 8.5 (37%) audits and no reviews resulted in nil assurance being given. In total 224 recommendations to improve controls and procedures within the Council were made. 22 (10%) were classified as high, 114 (51%) as medium and 88 (39%) as low. Of the completed audits 12 recommendations were not agreed by management.
12. The table shown at Appendix 1 includes a number of audits which are issued in draft and were outstanding for a significant period of time; these include responses from management for Section 106 Commuted Sums and the Proactive Anti Fraud Review. In addition there are three priority one audits outstanding which have not been issued in draft.
13. Two investigations were completed during 2009/2010 for the Council. In addition, Internal Audit was asked to provide consultancy advice in one area, and this work amounted to 16.5 days.
14. A total of 42 follow-up reviews were undertaken in 2009/2010, utilising 21 days. From those, 20 relate to Vale of White Horse District Council, of which 6 follow-up reviews have been undertaken on 2009/2010 audit work, utilising 3.0 days. Time has been allocated within the 2010/2011 audit plan for further follow-up work.

Issues Relevant to the Annual Governance Statement

15. Specific audit reviews on corporate governance and the Council's anti-fraud and corruption arrangements were included within the 2009/2010 annual audit plan. It is Internal Audit's opinion that the Council has strong control processes in place in relation to corporate governance. However, weaknesses were found in the Council's anti-fraud and corruption arrangements. Recommendations have been made, and it has been agreed that the Head of Legal and Democratic Services will lead on the

implementation of the recommendations with the support of the Audit Manager. Internal Audit has undertaken further proactive anti fraud testing within 2009/2010 which has raised number of issues to be addressed in consultation with Capita.

Internal Audit's Performance

16. At the beginning of 2009/2010 the staffing establishment of internal audit was six ftes (audit manager, senior auditor and 4x auditors). An auditor vacancy arose in July 2009 which was filled on 11 January 2010. In November 2009 the establishment was reduced to five ftes and the senior auditor was made redundant. On 1 February 2010, the audit manager went on maternity leave and it was decided by management team not to bring in a resource to cover the vacancy. Instead Marcia Slater has been acting in a supervisory capacity, so from 1 February 2010 to 3 January 2011, the establishment is four ftes.
17. The performance of Internal Audit is measured against a number of indicators. The out-turn for 2009/2010 is as follows:

	Year Ending 31/03/09	Target 09/10	Year Ending 31/03/10
Chargeable	70.5%	71.0%	68.2%
Non-Chargeable	12.5%	9.5%	8.0%
Lost	17%	19.5%	23.8%

Performance Targets	Year Ending 31/03/10
PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork	92.5%
PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	75.0%
PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	92.7%
PT4 To follow up 90% of final reports within 6 months of completion of audit.	63.5%
PT5 To complete the audit fieldwork and issue draft reports on 100% of all priority 1 audits within the audit plan.	63.9%
PT6 To complete the audit fieldwork and issue draft reports on 80% of all priority 2 and 3 audits within the audit plan.	100%

18. 3 out of 6 performance targets set for 2009/2010 were achieved, 2 of which were significantly exceeded. However, Internal Audit acknowledges that it needs to improve performance in issuing draft reports 5 days after the exit meeting of all priority 1 audits within the audit plan and undertake follow-up work on previous internal audit work.

19. Overall, it is the Head of Finance's opinion that the team has performed well this year, given the change imposed on staff resources on the service.

Compliance with CIPFA Code

20. It is the Head of Finance's opinion that internal audit work has complied with the CIPFA standards. Some minor improvements have been identified, which will be implemented within 2010/2011.
21. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are requested to complete an Audit Feedback Questionnaire on Internal Audit's performance. Response rates have worsen since last year from 18 in 2008/2009 to only 3 feedback surveys being returned during the course of 2009/2010. A summary of all the responses received and general comments is attached as **Appendix 2**.
22. All feedback received by the Audit Manager is discussed with the relevant Auditor. Where appropriate, the Audit Manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.

Financial Implications

23. There are no financial implications attached to this report.

Legal Implications

24. None

Risk Implications

25. Identification of risk is an integral part of all audits.

PLANNED AUDITS 2009/2010

APPENDIX 1

System Name	Status	Audit Allocation	Total Days Used	Exception Issues	Audit Opinion	No. of Recs	High	No. Agreed	Medium	No. Agreed	Low	No. Agreed	Total Not Agreed
As at 11 June 2010													
JOINT													
Bank Reconciliation Process Design SODC VWHDC	Completed	20	15.5		Satisfactory Satisfactory	9 6	0 0	N/A N/A	2 2	2 2	7 4	6 4	1 0
Brown Bin Scheme SODC VWHDC	Completed	20	22		Limited Limited	16 14	2 3	2 3	11 11	10 11	3 0	3 0	1 0
Capital Accounting SODC VWHDC	In Progress	14	14										
Council Tax SODC VWHDC	Completed	20	23		Satisfactory Satisfactory	7 4	0 0	0 0	2 2	2 2	5 2	5 2	0 0
Creditor Payments SODC VWHDC	Completed	30	30		Limited Limited	27 24	0 1	0 1	19 17	17 15	8 6	6 4	4 4
Facilities Management SODC VWHDC	Completed	20	22		Full Full	1 0	0 0	N/A N/A	0 0	N/A N/A	1 0	1 N/A	0 0
Financial Systems Reconciliations SODC VWHDC	Completed Completed	24	18		Satisfactory Satisfactory	11 9	0 0	0 0	5 2	5 2	6 7	6 6	0 1
General Ledger SODC VWHDC	Completed	20	23.5		Satisfactory Satisfactory	11 6	0 0	N/A N/A	6 3	6 3	5 3	5 3	0 0
Housing & Council Tax Benefits SODC VWHDC	Completed	30	23		Sat/Limited Sat/Limited	12 10	1 1	1 1	5 4	5 4	6 5	6 5	0 0
HR Grievance Procedure SODC VWHDC	Postponed	20	N/A	Carry forward 2010/2011	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Information Governance (Sensitive Data) SODC VWHDC	Completed	30	30		Satisfactory Satisfactory	8 7	0 0	0 0	3 3	3 3	5 4	4 3	1 1
NNDR SODC VWHDC	Draft Out	20	20		Satisfactory Satisfactory	9 9	0 0	0 0	5 3		4 6		
Partnership Performance Monitoring SODC VWHDC	Completed	20	20		Satisfactory Satisfactory	7 7	0 0	N/A N/A	4 4	4 4	3 3	2 2	1 1
Payroll (Capita) SODC VWHDC	Completed	20	20	Joint Capita and Client report issued.	Limited Limited	14 12	1 1	1 1	10 9	10 9	3 2	3 2	0 0
Payroll (Client) SODC VWHDC	See above	20	20	Joint Capita and Client report issued.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

RSSP TOTALS	-	682	577	Full Satisfactory Limited Nil	2 27 16 0	443	34	23.5	227	187.5	182	153	26
SODC Totals	-	341	280.25	Full Satisfactory Limited Nil	1 13.5 7.5 0	219	12	7.5	113	92	94	80	13.5
VWHDC Totals	-	341	296.75	Full Satisfactory Limited Nil	1 13.5 8.5 0	224	22	16	114	95.5	88	73	12.5

FOLLOW UP AUDITS 2008/2009

Page 16

System Name	Total Days Used	Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Budgetary Control	0.5	Satisfactory	7	1	1	0	5
Cornerstone 09/10	0.5	Satisfactory	12	8	0	0	4
Performance Management	0.5	Satisfactory	5	2	0	0	3
Risk Management	0.5	Limited	13	13	0	0	0
Freedom of Information	0.5	Satisfactory	2	1	1	0	0
Internal Recharges	0.5	Satisfactory	5	5	0	0	0
Disaster Recovery	0.5	Limited	3	3	0	0	0
Emergency Planning	0.5	Limited	8	2	4	1	1
Tourism (Marketing Contract)	0.5	Satisfactory	4	3	0	0	1
Car Park Income	0.5	Limited	15	13	0	2	0
Human Resources	0.5	Satisfactory	9	3	1	4	1
Geographical Information Systems	0.5	Satisfactory	4	2	0	1	1
Cornerstone - Couture Contract 09/10	0.5	Limited	17	15	1	1	0
Oxfordshire Waste Partnership 09/10	0.5	Satisfactory	5	4	1	0	0

Post Office	0.5	Satisfactory	7	5	1	1	0
VWHDC							
Guildhall	0.5	Satisfactory	9	6	3	0	0
Budgetary Control	0.5	Satisfactory	4	2	2	0	0
Property Gazetteer	0.5	Satisfactory	7	6	0	1	0
Tender Process	0.5	Satisfactory	5	2	1	2	0
Performance Management	0.5	Satisfactory	9	7	0	0	2
Risk Management	0.5	Limited	13	12	1	0	0
Human Resources	0.5	Satisfactory	7	5	1	0	1
Disaster Recovery	0.5	Full	2	2	0	0	0
Emergency Planning	0.5	Satisfactory	7	1	1	5	0
Comments & Complaints 09/10	0.5	Satisfactory	8	1	3	4	0
Receipt of Income Arrangements	0.5	Satisfactory	3	2	0	0	1
Internal Recharges	0.5	Satisfactory	8	6	0	2	0
Follow Up RSSP Totals	13.5		198	132	22	24	20
Follow Up SODC Totals	7.5		116	80	10	10	16
Follow Up VWHDC Totals	6.0		82	52	12	14	4

FOLLOW UP AUDITS 2009/2010

System Name	Total Days Used	Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
SODC							
Corporate Governance 08/09	0.5	Full	2	0	0	2	0
Partnership Performance Monitoring	0.5	Satisfactory	6	3	0	1	2
Temporary Accommodation	0.5	Satisfactory	6	4	0	0	2
Anti Fraud & Corruption 08/09	0.5	Limited	11	4	4	3	0
Contract Monitoring	0.5	Satisfactory	4	3	1	0	0
VFM CCTV Contract Arrangements	0.5	Satisfactory	5	4	0	0	1
Records Management	0.5	Limited	8	3	1	4	0
VWHDC							

Contract Monitoring	0.5	Limited	5	2	0	3	0
Oxfordshire Waste Partnership 08/09	0.5	Satisfactory	4	4	0	0	0
GIS 08/09	0.5	Satisfactory	8	3	0	4	1
Partnership Performance Monitoring	0.5	Satisfactory	6	3	0	1	2
Anti Fraud and Corruption 08/09	0.5	Limited	11	4	2	5	0
Consultation 08/09	0.5	Limited	17	12	1	4	0
VFM CCTV Contract Arrangements	0.5	Satisfactory	11	7	0	1	3
Rent Accounting	0.5	Satisfactory	12	7	1	4	0
Follow Up RSSP Totals	7.5		116	63	10	32	11
Follow Up SODC Totals	3.5		42	21	6	10	5
Follow Up VWHDC Totals	4.0		74	42	4	22	6

UNPLANNED WORK 2009/2010

CONSULTANCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
Facilities Management Comparison	Completed	10	24	Head of Economy, Leisure & Property
SODC				
HCA Housing Growth Bid	Completed	1	1	Head of Economy, Leisure & Property
Elections Accounts	To Commence	0.5		Head of Legal & Democratic Services
VWHDC				
OWP Auditing Authority - Year End	Completed	5	5.5	OWP Agreement
Consultancy RSSP Totals	-	-	30.5	
Consultancy SODC Totals			13.0	
Consultancy VWHDC Totals			17.5	

CONTINGENCY

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
None	-	-	-	-
SODC				
None	-	-	-	-
VWHDC				
Statement of Accounts Investigation	Completed	4.5	4.5	Chief Executive
Cash Office	Completed	10	12	Section 151 Officer
Contingency RSSP Totals	-	-	16.5	
Contingency SODC Totals			0	
Contingency VWHDC Totals			16.5	

SYSTEM DEVELOPMENT

System Name	Status	Audit Allocation	Total Days Used	Requested By
JOINT				
None	-	-	-	-
SODC				
None	-	-	-	-

VWHDC				
None	-	-	-	-
System Development RSSP Totals	-	-	-	-
System Development SODC Totals				
System Development VWHDC Totals				

SODC TOTAL AUDIT WORK 2009/2010 304.25 days
VWHDC TOTAL AUDIT WORK 2009/2010 340.75 days

SODC TOTAL AUDIT WORK 2008/2009 383.75 days
VWHDC TOTAL AUDIT WORK 2008/2009 426.75 days

INTERNAL AUDIT FEEDBACK

APPENDIX 2

4 Audit Feedback questionnaires were returned for work completed in 2009/2010 (18 were received in 2008/2009). Responses were received from:

SODC

Facilities Management

VWHDC

Facilities Management
Oxfordshire Waste Partnership
VFM from CCTV Contract

AUDIT PLANNING AND SCOPE OF WORK

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
1. Consultation on the scope and coverage of the audit	2 (7)	2 (10)	0 (1)	0 (0)	0 (0)	0 (0)
2. Minimal disruption to daily activities	0 (6)	4 (12)	0 (0)	0 (0)	0 (0)	0 (0)

Page 21

COMMUNICATION

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
3. Consultation and communication during the audit	0 (7)	4 (8)	0 (1)	0 (1)	0 (0)	0 (1)
4. Communication of audit findings and recommendations	0 (5)	4 (11)	0 (1)	0 (1)	0 (0)	0 (0)

QUALITY OF AUDIT REPORT

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
5. Clarity and conciseness of the audit report	0 (6)	4 (10)	0 (2)	0 (0)	0 (0)	0 (0)
6. Fulfilment of the audit scope and objectives	0 (6)	4 (11)	0 (1)	0 (0)	0 (0)	0 (0)
7. Accuracy, validity and significance of the audit findings	2 (5)	2 (9)	0 (4)	0 (0)	0 (0)	0 (0)
8. Audit recommendations - constructive, practical and logical	2 (7)	2 (7)	0 (3)	0 (0)	0 (0)	0 (1)

PROFESSIONAL PROFICIENCY

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
9. Professionalism of the auditor(s)	2 (10)	2 (7)	0 (1)	0 (0)	0 (0)	0 (0)
10. Advice given by the auditor(s)	2 (9)	2 (7)	0 (1)	0 (1)	0 (0)	0 (0)

GENERAL

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
11. Usefulness of audit in identifying risks and improving controls	0 (6)	4 (8)	0 (2)	0 (0)	0 (0)	0 (2)
12. Overall evaluation of the quality of the audit service provided	2 (8)	2 (7)	0 (2)	0 (0)	0 (0)	0 (1)

TOTALS

	Very Good	Good	Satisfactory	Poor	Very Poor	Did Not Answer
	14 (82)	36 (107)	0 (19)	0 (3)	0 (0)	0 (5)

OTHER COMMENTS RECEIVED

No Comments Received



Audit and Governance

30 June 2010

Report of **Head of Finance**

Report no. 15/10

Author: **William Jacobs**

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Wards Affected
All

Executive Portfolio Holder: **Councillor Jerry Patterson**

Telephone: **01235 850275**

E-mail: richard.webber@whitehorsedc.gov.uk

To: Audit and Governance Committee

DATE: 30 June 2010

Internal audit activity report quarter one 2010/2011

Recommendations

That members note the content of the report

Purpose of Report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action will be/has been taken where necessary.
2. The contact officer for this report is William Jacobs, head of finance for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823326 and (VWHDC) 01235 540455.

Strategic Objectives

3. To assist the Council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

Background

4. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Council's objectives. It assists the Council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary. After each audit assignment, internal audit has a duty to report to management its findings on the control

environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

5. Assurance ratings given by internal audit indicate the following:

Full Assurance: There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

Satisfactory Assurance: There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

Limited Assurance: There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

Nil Assurance: Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

6. Each recommendation is given one of the following risk ratings:

High Risk: Fundamental control weakness for senior management action

Medium Risk: Other control weakness for local management action

Low Risk: Recommended best practice to improve overall control

2010/2011 Audit Reports

7. Since the last Audit and Governance Committee meeting, the following audits have been completed:

Planned Audits

Full Assurance: 0

Satisfactory Assurance: 1

Limited Assurance: 1

Nil Assurance: 0

	Assurance Rating	No. of Recs.	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
1. Creditors	Limited	24	1	1	17	15	6	4
2. Information Governance	Satisfactory	7	0	0	3	3	4	3

Follow Up Reviews

	Original Assurance Given	No. of Recs	Recs due to be completed at the time of Follow Up audit				Later Recs
			Implemented	Partly Implemented	Not Implemented	Ongoing	
6. Contract Monitoring	Limited	5	2	0	3	0	0
7. VFM CCTV Contract Arrangements	Satisfactory	11	7	0	1	2	1
8. Rent Accounting	Satisfactory	12	7	1	4	0	0
9. Lone Working/Officer Security	Satisfactory	8	5	1	2	0	0
10. Oxfordshire Waste Partnership	Satisfactory	4	4	0	0	0	0
11. Partnership Performance Monitoring	Satisfactory	6	3	0	1	0	2

8. **Appendix 1** of this report sets out the key points and findings relating to the completed audits
9. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
10. A copy of each report has been sent to the appropriate service manager, the relevant strategic director, the Section 151 Officer and the relevant member portfolio holder.
11. Internal Audit continues to attempt to carry out a 6 month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

Financial Implications

12. There are no financial implications attached to this report.

Legal Implications

13. None.

Risks

14. Identification of risk is an integral part of all audits.

CREDITOR PAYMENTS 2009/2010

1. INTRODUCTION

- 1.1 Final Report was issued 31 March 2010. The fieldwork for this audit was undertaken between November and December 2010.
- 1.2 The following areas have been covered during the course of this review:
- To ensure that invoices are promptly processed through Agresso.
 - To ensure that there is documentation to support all payments made.
 - To ensure that manual, direct debit and BACS transfer payments are strictly controlled, appropriately authorised and paid correctly.
 - To ensure that adequate controls are in place to prevent duplicate payments.
 - To ensure that all refunds are appropriately authorised and actioned.
 - To ensure that VAT is being appropriately dealt with.

2. BACKGROUND

- 2.1 Within Agresso, the Financial Management System, there is a Creditors Module through which orders are made, invoices are processed and payments are made.
- 2.2 From the 1st September 2009, Exchequer Services (creditors and debtors) provided by Capita are being handled from its service centre in Shepton Mallet rather than locally at VWHDC.

3. PREVIOUS AUDIT REPORTS

- 3.1 Creditor Payments was last subject to an internal audit review in 2008 and seventeen recommendations were raised. A Limited assurance opinion was issued.
- 3.2 Of the seventeen recommendations made during the 2008/2009 audit, based on the responses and evidence obtained during this audit, only seven were implemented at the time of this review with four being restated and the remaining six incorporated into new findings.

4. 2009/2010 AUDIT ASSURANCE

- 4.1 **Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Twenty four recommendations have been raised in this review. One High risk, seventeen Medium risk and six Low risk.

5. MAIN FINDINGS

- 5.1 **Prompt Processing of Invoices**
- 5.2 Training and guidance notes are available for officers on the Council's intranet site with relevant sections on the accounts payable (AP) process. Training for officers, although being planned, was somewhat lacking in application and records. Officers are allowed to access the Agresso system with very little or no evidence of training. Similarly, there was no evidence to suggest that Capita employees have in place a skills matrix/training plan to ensure competency levels are attained for dealing with the Creditors system. It was noted that although a report is generated by Capita detailing invoices awaiting action, the frequency of the information supplied is not adequate. Appropriate controls need to be introduced to prevent duplicate accounts being set up, and a review exercise of the supplier masterfile should be regularly undertaken to identify any duplicate accounts. In addition, a regular review of debit balances should also be undertaken. Performance levels of percentage of invoices paid within 30 days, although not on target to reach the 99 per cent, is at a cumulative quarterly level of 95.62 per cent against last year's performance of 92.39 per cent. Ten recommendations have been made as a result of our work in this area.
- 5.3 **Supporting Documentation**

5.4 It was clear that a number of control measures are lacking in the areas of date stamping of payment documentation, coding group distribution, workflow bugs and supporting documentation. Instances of duplicate invoices registration and payments were also found. It is considered that the Purchase Ordering Module within Agresso is not being fully utilised by officers in relation to Creditor purchases. Internal Audit is also of the opinion that the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher, with a view to a reduction in process time and data input errors. Eight recommendations have been made as a result of our work in this area.

5.5 **Control Of Payments**

5.6 Housekeeping issues relating to the general maintenance of supplier direct debits and their respective supporting documentation were highlighted during the 2008/2009 audit, with no actions taken in implementing those recommendations. The usage of purchase orders (PO's) was reviewed and out of forty five payments, only five had a related purchase order. BACS payment documentation, again highlighted during the 2008/2009 audit was still an issue with a lack of countersignatory evidence available for payments over £10k. One recommendation has been made as a result of our work in this area.

5.7 **Duplicate Payments**

5.8 A duplicate payment analysis programme was not available within the Agresso system. Checks are performed at the front end for duplicate accounts, however, there did not appear to be any further controls in place. Internal Audit found it difficult in extracting the required information from Capita in order to provide an appropriate assurance level. One recommendation has been made as a result of our work in this area.

5.9 **Refunds**

5.10 The process for handling refunds is detailed within the AP procedures, available on the Intranet with appropriate sections on the approval process in line with the standard AP process. As highlighted in other objective areas, it was clear that a number of control measures are lacking in the areas of workflow bugs and supporting documentation. Recommendations have been made within other objective areas that cover aspects of refunds.

5.12 **VAT**

An officer is in place to deal with aspects of VAT and in addition, control procedures are in place to perform the relevant VAT duties. The application of VAT codes is also detailed in the Accounts Payable procedure, detailing how the VAT rate and the supplier's VAT registration number should be applied, with guidance on seeking advice and the implications of applying the wrong code. Procedures are available to all officers depending on the level of information required. No recommendations have been made in this area.

5.13 **Previous Recommendations**

5.14 Of the seventeen recommendations made during the 2008/2009 audit, based on the responses and evidence obtained during the audit, only seven were implemented at the time of the review. A significant amount of work is required to ensure those recommendations are reviewed and implemented in addition to the recommendations being made in the current audit. Four recommendations have been restated as a result of our work in this area, with the remaining six incorporated into new findings.

OBSERVATIONS AND RECOMMENDATIONS

INVOICE PROCESSING

1. Council Training/Skills Matrix

(Medium Risk)

Recommendation	Rationale	Responsibility
a) To determine the training requirements for all Agresso AP users.	<u>Best Practice</u> Training requirements for systems usage are highlighted with adequate training provided to address any skills shortfall.	Capita/Head of Finance
b) To develop a training	Appropriate records are maintained and	

matrix/ plan. c) To implement Agresso AP training.	updated as required. <u>Findings</u> Internal Audit requested from HR, evidence of a training matrix and training plan for all users of the Agresso system. The Training & Development Co-ordinator provided a report showing evidence of Agresso training. Upon the evidence provided, there has been no training since April 2008. The PA to Management Team confirmed that an Agresso AP training session took place in September 2008. Internal Audit could not find any records of this from the data provided by HR. Work is currently underway to make available a training server on which to carry out Agresso training. <u>Risk</u> Without an appropriately actioned training plan in place, officers will be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.	
Management Response		Implementation Date
Recommendation is Agreed in Principle Agresso superusers have been identified and trained. Capita is completing a training matrix. Training requirements will be discussed at the agresso superuser meeting and an appropriate training process will be put in place. Management Response: Capita/Head of Finance		1 April 2010

2. Access to Agresso

(Medium Risk)

Recommendation	Rationale	Responsibility
Access to the Agresso system is only granted upon successfully completing formal Agresso training.	<u>Best Practice</u> Access to the management systems are only granted upon successfully completing formal training to show that a pre-defined competency level has been attained. <u>Findings</u> Officers are granted access to the Agresso system, irrespective of whether any formal detailed training has been completed. <u>Risk</u> Without appropriate training, officers will be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.	Capita/Head of Finance
Management Response		Implementation Date
Recommendation is Agreed in Principle Ideally this is the procedure which should happen. However, formally training is not required for all users. On the job instruction by a superuser is suitable in many instances. This will be determined as part of the action agreed in recommendation 1 above. Management Response: Capita/Head of Finance		1 April 2010

3. Capita Training/Skills Matrix

(Medium Risk)

Recommendation	Rationale	Responsibility
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<p>That Capita develop and implement a training/skills matrix for Capita employees who are involved in the Agresso AP process.</p>	<p>Best Practice Training requirements for systems usage are highlighted with adequate training provided to address any skills shortfall. Appropriate records are maintained and updated as required.</p> <p>Findings With the recent Exchequer Services change of location and the resulting operational problems in mind, Internal Audit requested from Capita evidence of a training matrix and training plan for all users of the Agresso AP system. It was stated that under the contract specification, Capita are not required to keep any such matrix for Creditor Payment Users and therefore nothing of that nature currently exists.</p> <p>Risk Without an appropriately actioned training plan in place, Capita staff may be inappropriately equipped to carry out their duties correctly and effectively, resulting in an inefficient AP process.</p>	<p>Exchequer Services Manager</p>
<p>Management Response</p>		<p>Implementation Date</p>
<p>Recommendation is Agreed</p> <p>Agreed, training matrix should exist to ensure that all Capita staff have undertaken required training in order to undertake tasks for AP/AR. Training matrix to be implemented and maintained by relevant team leader within service centre.</p> <p>Management Response: LGS Business accountant</p>		<p>31 Jan 2010</p>

4. Invoice Report Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>a) To implement a process to ensure the 'invoices awaiting action' report is made available to the Council on a regular basis.</p> <p>b) That the Intranet site which is detailed as the repository for the above information be either actively used or removed.</p>	<p>Best Practice Required reporting mechanisms are in place and reports are circulated on a regular basis to ensure resulting decisions are made in a timely manner.</p> <p>Findings It was ascertained that a report entitled 'invoices awaiting action' is generated by Capita which is sent to the Senior Revenues and Benefits Client Officer for circulation to Council officers It was noted from email correspondence from the Senior Revenues and Benefits Client Officer that no reports were received or circulated between 11th August and 30th September 2009. It was also noted that an intranet page is in place for holding the same reports, however, the usage appears to be redundant as the last set of data is from May 2009.</p> <p>Risk Without timely, accurate management information available to the Council, invoices awaiting action will become stagnant and could result in exceeding invoice payment deadlines.</p>	<p>Capita Exchequer Services Manager and Senior Revenues & Benefits Client Officer</p>

Management Response	Implementation Date
<p>Recommendation is Agreed</p> <p>Until such time as the council is performing at the required level for payment of invoices, the Senior Revenues & Benefits Client Officer (SR&BCO) will continue to distribute the "invoices awaiting action" reports. Capita will ensure that these reports are sent to the SR&BCO promptly on a weekly basis.</p> <p>The SR&BCO will ensure that the redundant lists are removed from the Intranet.</p> <p>Management Response: Senior Revenues & Benefits Client Officer</p>	Immediately

5. Prompt Invoice Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure that invoices awaiting distribution are acted upon in a timely manner in order to facilitate an efficient AP process.	<p><u>Best Practice</u> A process is in place whereby invoices are distributed in a timely manner to ensure an efficient AP process.</p> <p><u>Findings</u> A specific case was highlighted during the audit where an invoice sat waiting for Capita workflow distribution for 33 days. The task was originally sent to the Communications coding group at VWHDC on 16 September 2009. Officer X rejected the invoice on 16 September 2009 stating it was for Officer Y in Accountancy. It then appeared from the workflow that Capita did nothing further with the invoice until 19 October 2009 when it was sent back to the Communications coding group. Officer X rejected the invoice once more, again stating it was for Officer Y in Accountancy and the invoice then went through to Finance.</p> <p><u>Risk</u> Without an appropriately efficient process in place, invoices remain dormant resulting in a delay in payment with reputational and financial damage to the Council.</p>	Capita Exchequer Services Manager

Management Response	Implementation Date
<p>Recommendation is Agreed</p> <p>The use of the 'invoices awaiting distribution' report and other internal management information reports in operation within the service centre allows management to obtain assurance that all transactions that are in workflow are being progressed.</p> <p>This is being reviewed by the service team management on a daily basis.</p> <p>Items that have dropped out of workflow are identified in an 'items to follow up' report and progressed by Agresso system admin on a regular basis.</p> <p>Management Response: LGS Business Accountant</p>	Immediate

6. Duplicate Supplier Accounts Checks

(Medium Risk)

Recommendation	Rationale	Responsibility
That a periodic review of the supplier master file is performed to ensure	<p><u>Best Practice</u> That a periodic review of the supplier master file is performed in order to prevent</p>	Exchequer Services Manager and Head of Finance

<p>duplicate supplier accounts only exist for valid reasons, with clear information to distinguish between them.</p>	<p>duplicate invoices being raised on separate accounts.</p> <p><u>Findings</u> Although there is a control process prior to the new supplier form being received by the departments, Internal Audit could not ascertain from the audit responses received from Capita, whether appropriate checks are being made on duplicate supplier accounts (the supplier master file) in order to prevent duplicate invoices being raised on separate accounts.</p> <p><u>Risk</u> If there is more than one account for a supplier, there is a risk that an invoice may be processed twice leading to duplicate payments being made.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Capita will provide a report detailing supplier accounts that are potential duplicates and will action according to the council's wishes.</p> <p>However, going forward, instructions will be given to Agresso AP users via the superuser group to advise that a thorough search of the Agresso database should be conducted before forwarding any new supplier requests to Capita. For its own part, upon receipt of any new supplier requests, Capita will also conduct a thorough search of Agresso to ensure that the supplier does not already exist.</p> <p>Management Response: Capita/Head of Finance</p>		<p>31 March 2010</p>

7. Duplicate Supplier Accounts

(High Risk)

Recommendation	Rationale	Responsibility
<p>That Capita review the duplicate supplier accounts highlighted during the audit and recover any overpayments from suppliers.</p>	<p><u>Best Practice</u> There should be one account for each supplier within the masterfile.</p> <p><u>Findings</u> Internal Audit produced a supplier aged debt report from Agresso and reviewed the report for any evidence of duplicate suppliers. From the review, Internal Audit found one instance where two accounts had the same or similar supplier name and the same address. Internal Audit reviewed the invoices against the accounts for any duplication. Internal Audit found two duplicate invoices raised against each account, invoice 858770 for £355.32 and invoice 854133 for £426.38.</p> <p><u>Risk</u> If there is more than one account for a supplier, there is a risk that an invoice may be processed twice leading to duplicate payments being made.</p>	<p>Exchequer Services Manager and Head of Finance</p>
Management Response		Implementation Date
<p>Recommendation is Agreed in principle</p> <p>Capita will provide a report detailing supplier accounts that are potential duplicates and will action according to the council's wishes.</p>		<p>31 March 2010</p>

Management Response: Capita/Head of finance	
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8. Payments to Suppliers

(Medium Risk)

Recommendation	Rationale	Responsibility
The increased level of overdue creditor payments is investigated and appropriate actions are put in place to reduce the level.	<p><u>Best Practice</u> Debt levels on supplier accounts should be adequately controlled.</p> <p><u>Findings</u> On review of the data available on supplier aged debt, Internal Audit found the level of supplier debt totalling £1,912,347.75 on debts up to 6 months. Using the figures from the previous 2008/2009 audit, it was noted that the level of supplier aged debt has increased by £1,771,724.38 (up from £140,572.76).</p> <p><u>Risk</u> Without adequate management of supplier debt, the level of debt will exceed an appropriate level.</p>	Capita Exchequer Services Manager and Senior Revenues & Benefits Client Officer
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>The figure of £1,912,347.75 includes £1,051,880.72 which is precept payments to town and parish councils (and have now been made). The remaining items are included in the "invoices awaiting action" report which is circulated each week and encourages departments to authorise all payments which are not disputed. It is therefore being addressed through 4 & 5 above.</p> <p>Management Response: Senior Revenues & Benefits Client Officer</p>		Immediate

9. (2008/2009) Disputed Invoice Flag

(Low Risk)

Recommendation	Rationale	Responsibility
A 'Disputed Invoice Flag' should be introduced to creditors to allow officers to identify all invoices that are currently in query.	<p><u>Best Practice</u> The performance calculation excludes any invoices in dispute and these should therefore be readily identifiable.</p> <p><u>Findings</u> In order to calculate the performance of Creditors, an officer has to manually check for invoices in dispute.</p> <p><u>Risk</u> Performance of Creditors may be understated due to disputed invoices being included in the calculation leading to inaccurate calculations being relied upon.</p>	N/A
Management Response		Implementation Date
<p>Recommendation is Not Agreed</p> <p>Functionality is not available in this version of Agresso, or scheduled to be included in any future releases due to BVPI8 indicator no longer being a national indicator and the dispute functionality being a pre workflow (therefore pre Agresso 5.4) piece of functionality.</p> <p>This has been raised numerous times and is not a decision of Capita, it is a fundamental restriction of the finance system due to workflow functionality being introduced.</p> <p>Management Response: LGS Business Accountant</p> <p>IA now acknowledges that the recommendation is based on functionality</p>		N/A

no longer available in the Agresso AP module.	
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10. Debit Balances

(Low Risk)

Recommendation	Rationale	Responsibility
The debit balances highlighted during testing should be reviewed by Capita and appropriate action taken where necessary.	<p><u>Best Practice</u> Balances on supplier accounts should be accurate and any credit notes that have been outstanding for a period of time should be 'cashed in' with the supplier.</p> <p><u>Findings</u> Whilst reviewing the 'Supplier Aged Debt' report it was noted that there are 7 debit balances on supplier accounts ranging from 1 to 3 years.</p> <p><u>Risk</u> Inappropriate management of debit balances within the accounts is inefficient and may lead to cash-flow issues within the accounts.</p>	Exchequer Services Manager
Management Response		Implementation Date
<p>Recommendation is Agreed in principle</p> <p>The ultimate decision regarding debit balances on supplier accounts will sit with the council, however we will provide details of any account with a debit balance and action according to the instruction received from the council - Assumption is this instruction needs to be from service team or from accountancy.</p> <p>Management Response: LGS Business Accountant</p>		31 March 2010

SUPPORTING DOCUMENTATION

11. Duplicate Invoices

(Medium Risk)

Recommendation	Rationale	Responsibility
To review the duplicate registrations highlighted during the audit and to confirm the control and analysis measures in place to prevent reoccurrence.	<p><u>Best Practice</u> Appropriate controls are in place to prevent duplicate invoice registration and payments.</p> <p><u>Findings</u> Upon sample testing of payments, Internal Audit highlighted that a TVR Invoice (C131759) for £234.74 appeared to have been registered twice. Internal Audit approached Capita as to whether any kind of duplicate payment analysis is available within Agresso. It was stated that no duplicate payment module is available from within the Agresso system, controls are in place at the front end to avoid duplicate invoices, however if slight variations exist or multiple suppliers are setup then control weaknesses are created. Internal Audit is of the opinion that a control weakness exists in the area of highlighting of duplicate payments. A further duplicate invoice NM26756 was also found to have been registered twice against supplier 11156.</p> <p><u>Risk</u> Without appropriate Controls in place, duplicate invoice registration and payments will occur.</p>	Exchequer Services Manager and Head of Finance

Management Response	Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>Two key actions have been implemented to make the payment process more robust:</p> <p>1 – When registering invoices Capita staff ensure that the invoice details are entered carefully, including the invoice number which Agresso AP uses to prevent duplicate payments.</p> <p>2 – Members of staff coding and approving payments are accountable for those payments. They have been reminded to carefully check the details in Agresso AP and not just assume that Capita has entered them correctly.</p> <p>Management Response: Capita/Head of Finance</p>	Immediately

12. Invoice Registration and Control

(Medium Risk)

Recommendation	Rationale	Responsibility
To ensure appropriate controls are in place to prevent inappropriate payments to officers.	<p><u>Best Practice</u> Appropriate controls are in place to prevent inappropriate payments to officers.</p> <p><u>Findings</u> A supplier invoice for £218 from Sweet and Maxwell was incorrectly registered against the Legal Services Manager. The invoice was coded by the appropriate officer and then subsequently approved by and paid to the Legal Services Manager.</p> <p><u>Risk</u> Without appropriate controls in place, funds could be misappropriated resulting in adverse financial implications for the Council.</p>	Exchequer Services Manager and Head of Finance

Management Response	Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>Registration, coding and approving of non-purchase order invoices are all manual processes and therefore open to human error. In the transaction highlighted the invoice was incorrectly registered by Capita against the wrong supplier. It was then subsequently coded and approved by council officers who did not check which supplier the invoice had been registered against.</p> <p>As with recommendation 11, the following actions apply:</p> <p>1 – When registering invoices Capita staff need to ensure that the invoice details are entered carefully, including the invoice number which Agresso uses to prevent duplicate payments.</p> <p>2 – Members of staff coding and approving payments are accountable for those payments. They should carefully check the details in Agresso and not just assume that Capita has entered them correctly.</p> <p>3 – The increased use of purchase orders would prevent the issue of duplicate payments.</p> <p>Management Response: Senior Revenues & Benefits Client Officer</p>	Immediately

13. Approval Workflow

(Medium Risk)

Recommendation	Rationale	Responsibility
That invoice workflow approvals are visible	<p><u>Best Practice</u> An invoice approval system is in place and</p>	N/A

<p>within the Agresso system and that approvals are evidenced for the payments highlighted during the audit.</p>	<p>transactional information is freely available to provide the Council with an appropriate control mechanism for invoice approvals</p> <p><u>Findings</u> Internal Audit noted that 18 invoices appear to have been paid without any evidence of being approved. Internal Audit approached the Capita Business Accountant in order to ascertain the reasons for no workflow attached to the invoices. The Capita Business Accountant explained there was a known system bug that drops the workflow from certain transactions. Internal Audit was of the opinion that although this may be the case, the Agresso system should provide sufficiently accurate management information surrounding creditor payments. No additional evidence was provided to show the transactions had been approved.</p> <p><u>Risk</u> Without a robust invoice approval system in place, payments are, or appear to be made without the necessary system controls in place.</p>	
Management Response		Implementation Date
<p>Recommendation is Not Agreed</p> <p>A workflow replacement enquiry has been produced and can evidence that officers authorised the transactions and the associated dates. It was also stated that workflow wasn't dropped for transactions however the workflow map becomes unavailable for viewing (A system bug on the current version – one that the software provider has stated is fixed in future releases)</p> <p>Management Response: LGS Business Accountant</p> <p>IA held a discussion with the LGS Business Accountant who confirmed that the workflow replacement enquiry is for Capita system level users and not for Council Officers.</p>		<p>N/A</p>

14. Invoice Distribution

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>To implement a process to ensure invoices are sent to the correct coding group in order to provide an efficient and complete AP process.</p>	<p><u>Best Practice</u> In order to support an efficient AP process, invoices are sent to the correct Agresso coding group.</p> <p><u>Findings</u> Internal Audit found 18 instances where the invoices were sent to the wrong coding group ranging from 1 to 3 times before being sent to the correct group for coding and authorisation.</p> <p><u>Risk</u> Without the timely turn around of the coding and authorisation process, delays in payments will occur, resulting in poor AP performance figures.</p>	<p>N/A</p>
Management Response		Implementation Date
<p>Recommendation is Not Agreed</p> <p>When Capita first moved Exchequer Services to Mendip there was a steep learning curve for its staff and mistakes were made when distributing invoices. This has since improved and invoices are being</p>		<p>N/A</p>

sent to the wrong coding group. However, invoices in respect of purchase orders do not need to go through the coding process therefore the council should concentrate on increasing the number of purchase orders to improve payment performance.	
Management Response: Senior Revenues & Benefits Client Officer	

15. Supporting Documentation

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure invoices are scanned and attached to invoice registrations in order to provide an efficient and complete AP process.	<p><u>Best Practice</u> All invoices are scanned and attached to invoices registration in order to allow for the necessary reviews, approvals and payments to be made.</p> <p><u>Findings</u> Internal Audit found 3 transactions where there was no scanned image (invoice) available to view.</p> <p><u>Risk</u> Without the appropriate supporting invoice attached, payments could be coded, approved and paid without any review of the payment details.</p>	Exchequer Services Manager
Management Response		Implementation Date
Recommendation is Agreed		Implemented
The invoice registration process only commences with the receipt of a scanned image, sample check to commence to ensure images are not being dropped part way through process.		
Management Response: LGS Business Accountant		

16. Purchase Order Usage

(Low Risk)

Recommendation	Rationale	Responsibility
The Purchase Order Module within Agresso should be utilised wherever possible.	<p><u>Best Practice</u> Purchases should be supported by an order and the Purchase Ordering Module within Agresso should be used for this process.</p> <p><u>Findings</u> Of a sample of 45 payments, there were only 5 instances where a supporting purchase order had been raised. It was however noted that the usage of PO's is a high level item within the Agresso development plan with a number of resolution items noted.</p> <p><u>Risk</u> Goods may be obtained without being ordered through Agresso leading to the Council being charged for inappropriate goods or services. In addition, commitment accounting provides more effective budgetary control. It depends on purchase orders, therefore with low PO coverage, there are fewer commitments raised and increased risk of budget overspends.</p>	Exchequer Services Manager and Head of Finance
Management Response		Implementation Date
Recommendation is Agreed		1 April 2010
We are in the process of introducing stricter rules whereby non PO		

invoices will only be allowed onto the Agresso AP system where a PO is unavailable and appropriate management authorisation is obtained to send such non PO invoices for payment.	
Management Response: LGS Business Accountant/Head of finance	

17. Invoice Acknowledgement

(Medium Risk)

Recommendation	Rationale	Responsibility
To implement a process to ensure invoices are date stamped by Exchequer Services upon receipt.	<p><u>Best Practice</u> In order to prevent the possibility of duplicate invoice registration, all invoices should be date stamped at all times upon receiving of the payment request.</p> <p><u>Findings</u> Of the 25 invoices reviewed (20 BACS and 5 cheques), 5 invoices were not date stamped by Capita.</p> <p><u>Risk</u> Without the appropriate controls in place for receiving of payment requests, delays in registration or duplicate invoice registration could occur.</p>	Exchequer Services Manager
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Staff have been instructed to be more diligent in their date stamping invoices.</p> <p>Black ink is now being used.</p> <p>Management Response: LGS Business Accountant (Capita)</p>		Implemented

18. Payment Voucher Process

(Low Risk)

Recommendation	Rationale	Responsibility
To review whether the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher and associated supporting documents with a view to a reduction in process time and data input errors.	<p><u>Best Practice</u> Duplication of data entry is kept to a minimum in order to reduce the likelihood of errors and wasted levels of applied resource.</p> <p><u>Findings</u> The current process is for payment vouchers to be completed using the Excel template provided on the intranet. The completed file is then emailed to Exchequer Services. Once acknowledged by Capita, the payment voucher is then printed, scanned and then registered onto Agresso with the information provided and then sent for approval back to the relevant Council service area. Internal Audit is of the opinion that the manual payment voucher process could be replaced by using Agresso for directly entering the payment voucher with a view to a reduction in process time and data input errors.</p> <p><u>Risk</u> Areas of cost reduction are not realised within the payment voucher process.</p>	N/A
Management Response		Implementation Date
Recommendation is Not Agreed		N/A

<p>Direct input by departments would not allow the functionality to include a scanned image of voucher, a fundamental requirement and previous audit point.</p> <p>Direct input by department is not currently available due to system configuration, this task would need to be included on improvement plan, impact assessed and a suitable change control produced.</p> <p>Management Response: LGS Business Accountant</p> <p>IA comment: Following the management response, IA recognize that the current Agresso AP system configuration does not allow for the recommendation to be implemented.</p>	
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CONTROL OF PAYMENTS

19. Payment Runs

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>That a process is in place to ensure the payment run proposals and confirmation reports are adequately reviewed, approved and documented, with evidence to support any urgent payments over £10k that require counter signing.</p>	<p><u>Best Practice</u> Any payments made by the Council over £10k should be countersigned.</p> <p><u>2008/2009 Findings</u> Internal Audit spoke with Capita to ascertain the process of obtaining a counter signatory for cheques over £10k and it was ascertained that there is currently no form in place on which to record 'urgent' cheques that require counter signing. On the usual weekly payment runs a report is generated through Agresso that lists each payment over £10k however this is not the case for 'urgent' cheques. As a result, Internal Audit cannot confirm that the payments within the sample that exceeded £10k had been counter-signed. The bank is responsible for not cashing any cheques which have not been countersigned.</p> <p><u>2009/2010 Findings</u> It was mentioned during a discussion held with the Principal Technical Accountant that, on occasion, it is only the payment run confirmation or the proposal report that is received from Capita and the authorisation given against either of these is the only single method used to proceed with the payment run. In addition it was noted that no checks or documented approvals are being performed at the point where the confirmation report is received following the authorisation of the payment run proposal</p> <p><u>Risk</u> Urgent payments exceeding £10k may be generated leading to the payment not being appropriately authorised.</p>	<p>Exchequer services manager</p>
Management Response	Implementation Date	
<p>Recommendation is Agreed in Principle</p> <p>All items on the payment run proposal have already been authorised by the appropriate budget holders. The Principal Technical Accountant only reviews the payments in excess of £10k and acts as a second control on such payments.</p> <p>Urgent payments whether below or above £10k are required to have the</p>	<p>Immediate</p>	

agreement of the chief accountant who will challenge the need for all urgent payments. Capita staff have been advised not to accept urgent payments without the approval of the chief accountant.	
Management Response: Chief Accountant	

DUPLICATE PAYMENTS

20. Audit Information Requests to Capita

(Medium Risk)

Recommendation	Rationale	Responsibility
To ensure that an appropriate Capita resource is in place to respond to Council requests for information in a timely manner.	<p><u>Best Practice</u> Management information should be provided to Internal Audit in a timely manner.</p> <p><u>Findings</u> Internal Audit also noted the difficulty in extracting audit information from Capita. Since the in house Exchequer Services Manager contact has left the Capita Business, the primary contact provided to Internal Audit was the Business Accountant. In particular, Internal Audit did not receive any response to the request for 2008/2009 audit follow up information.</p> <p><u>Risk</u> Without the required information being provided, the necessary assurances cannot be provided resulting in a poor service delivery by the audit team.</p>	LGS Business Accountant
Management Response	Implementation Date	
<p>Recommendation is Agreed</p> <p>Adequate Capita management is in place within the service centre to deal with requests for information from the client be it, internal audit, an individual service department or a council officer.</p> <p>The Exchequer Services manager should be the point of contact for all future Internal audit requests.</p> <p>With regard to the responses to the 2008/2009 audit follow up information this was an oversight on the LGS business accountants part, a control has now been put in place to log all requests for information and updated when completed.</p> <p>Management Response: LGS Business Accountant</p>	Immediate	

UNIMPLEMENTED RECOMMENDATIONS FROM THE 2008/2009 AUDIT

21. (2008/2009) Redundant Users

(Low Risk)

Recommendation	Rationale	Responsibility
An exercise should be undertaken to remove any redundant users from the Creditors module of Agresso.	<p><u>Best Practice</u> Access to the system should only be granted for existing and appropriate employees.</p> <p><u>2008/2009 Findings</u> Testing identified a number of users that remain on the system but are no longer employed by the Council. Their access levels remain active.</p> <p><u>2009/2010 Findings</u> It was identified through the 2009/2010</p>	Exchequer Services Manager and Head of Finance

	<p>General Ledger audit review that there are still active Agresso users in place who are no longer with the Council.</p> <p><u>Risk</u> Inappropriate access to the system leading to an increased risk of fraud or malicious damage.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed in Principle</p> <p>Capita will provide the council with a list of all active users. The list will then be reviewed and any users who are no longer employed by the council will be deactivated.</p> <p>Management Response: Capita/Head of Finance</p>		31 March 2010

22. (2008/2009) New / Change Supplier Request Forms

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>An investigation is undertaken to ascertain if there is a field within Agresso that allows the changes made to supplier records to be displayed within the audit log.</p>	<p><u>Best Practice</u> Any changes made to a system should be evidenced by an audit log.</p> <p><u>2008/2009 Findings</u> Only the date and the user who did the amendment show on the supplier account following any changes being made. It was not possible to ascertain what changes had been made.</p> <p><u>Risk</u> Amendments can be made inappropriately leading to the increased risk of fraud, loss or malicious damage.</p>	<p>Exchequer Services manager & Agresso System admin support</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Within the Agresso system are a number of audit logs, these monitor the tables within the database and record changes made by users, dependant upon the nature of the change and the field that is being updated the audit log will hold details of changes made to the supplier record.</p> <p>Amendments made to the supplier master file will be held within the audit log files within the database and reviewed upon request. This addresses the concern raise above.</p> <p>Management Response: LGS Business Accountant</p> <p>Comment from IA: IA to review the above measures as part of the audit follow up due in 2010/11.</p>		Immediate

23. (2008/2009) Urgent Cheques

(Medium Risk)

Recommendation	Rationale	Responsibility
<p>The issues relating to the appropriate use of urgent payments should be reviewed and action taken where necessary.</p>	<p><u>Best Practice</u> The urgent payment process should only be used in appropriate circumstances.</p> <p><u>2008/2009 Findings</u> Internal Audit found that within the sample of 20 urgent payments, there appeared to be excessive use of account 99999 (sundry supplier). Another payment was made through the manual cheque process that would appear to have been more</p>	<p>Head of Finance</p>

	<p>appropriate to have gone through the Payroll system. In another instance, due to fact that a payment request voucher had not been used, the invoiced amount was processed and paid despite an allowance on the invoice for part exchange reducing the overall balance.</p> <p><u>Risk</u> If the urgent payment process is used to make inappropriate payments, there is potential for the transaction being processed through different systems leading to duplicate payments being made.</p>	
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>Usage of urgent payments is currently part of Agresso development plan</p> <p>Management Response: Senior Revenues & Benefits Client Officer</p>		31 January 2010

24. (2008/2009) Correct Payments

(Low Risk)

Recommendation	Rationale	Responsibility
<p>Consideration should be given to the introduction of a new petty cash reimbursement process.</p>	<p><u>Best Practice</u> The Petty Cash reimbursements process should be similar to that of South Oxfordshire District Council in that reimbursements to petty cash floats should not be made to an employee.</p> <p><u>08/09 Findings</u> Petty cash reimbursements had been made to an employee responsible for the float and a supplier account had been used. It appears that a reimbursement for a petty cash float had been paid twice to an employee. In addition, a reimbursement had been made to an employee for 'staff travel expenses'.</p> <p><u>Risk</u> There is an increased possibility of reimbursements being made inappropriately.</p>	<p>Chief accountant</p>
Management Response		Implementation Date
<p>Recommendation is Agreed</p> <p>The petty cash reimbursement process was reviewed and updated in line with a response to a petty cash audit in December 2009.</p> <p>Management Response: Chief accountant</p> <hr/> <p>IA comment: In addition, from April 2010, petty cash floats are being centralised into a single float maintained by LSP Cash Office.</p>		<p>December 2009</p>

Audit and Governance Committee report



30 June 2010

Report of: **Head of Finance**

Author: **William Jacobs**

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To: Audit and Governance Committee

DATE: 30 June 2010

Report no. 16/10

Wards Affected
All

Internal audit management report quarter one 2010/2011

Recommendation

That members note the content of the report

Purpose of Report

- 1 The purpose of this report is:
 - to report on management issues within internal audit.
 - to summarise the progress of internal audit against the 2010/2011 audit plan up to the 11 June 2010.
 - to summarise the priorities and planned audit work for quarter two 2010/2011.
2. The contact officer for this report is William Jacobs, head of finance for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823326 and (VWHDC) 01235 540455.

Strategic Objectives

3. To assist the Council to manage its business effectively by providing an assurance framework to monitor the overall adequacy and effectiveness of the internal control environment.

Background

4. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the head of internal audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
5. The CIPFA Code also states that the audit committee should approve the annual internal audit plan and monitor progress against the plan. This Committee approved the annual internal audit plan on the 17 March 2010.

Management Issues

6. Marcia Slater continues to act in a temporary supervisory capacity during the internal audit manager's maternity leave and meets with William Jacobs, head of finance on a regular basis to discuss operational issues and he is aware of the staff resource matters as reported below which have impacted on the commencement of the 2010/2011 internal audit plan.

Progress against the 2010/2011 Audit Plan

7. During this period, Piers Nunn (auditor) left the employment of the Council. Marcia Slater has organised the recruitment process and taken responsibility for picking up the outstanding audit work from Piers Nunn, which has resulted in her doing less audit work.
8. The recruitment process has been successful and it is hoped a new auditor will start in July pending the successful completion of the recruitment checklist.
9. Progress against the approved audit plan has been calculated for the quarter up to 11 June 2010 and year to date and is summarised in **Appendix 1** attached.
10. Performance figures are as follows:

	Target	YTD	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11
Chargeable (identifiable client and/or specific IA deliverable)	61.5%	56.4%	56.4%	-	-	-
Non-Chargeable (corporate, not IA deliverable)	8.5%	3.2%	3.2%	-	-	-
Lost (i.e. leave, study, sickness)	30%	40.4%	40.4%	-	-	-

11. Due to the management issues identified above, performance has been affected. However, the team continue to diligently work to the planned audit programme and it is the head of finance's opinion that most of the variance against target will be attributable to resource and management pressures.
12. As at 11 June 2010, the status of audit work against the 2010/2011 audit plan is as follows:

Planned

Strategic, operational and financial assurance work known and approved by the Audit and Governance Committee.

2010/2011	Planned	Complete	Draft	In progress	To commence
PLANNED	57	0	1	3	53
Joint	46	0	0	1	45
SODC	6	0	1	1	4
VWHDC	5	0	0	1	4

Adhoc

Unplanned project work based on agreed terms of reference with the audit manager (i.e. implementation of new systems) and responsive work issued and agreed by the S151 Officer, members or senior management team (i.e. investigations).

2010/2011	Requested	Complete	Draft	In progress	To commence
ADHOC	0	0	0	0	0
Joint	0	0	0	0	0
SODC	0	0	0	0	0
VWHDC	0	0	0	0	0

Follow Up

Work undertaken to ensure that agreed recommendations have been implemented. The number of follow-up audits is a rolling number, all internal audit reports are followed up after six months.

2010/2011	Requested	Complete	Draft	In progress	To commence
FOLLOW-UP	31	11	0	4	16
Joint	24	6	0	4	14
SODC	4	3	0	0	1
VWHDC	3	2	0	0	1

Priorities for 2010/2011 quarter two (July 2010 - September 2010)

13. The priority for quarter two is:

- Complete outstanding follow-up reviews.
- Complete the following 2009/2010 audits:
 - Capital Accounting (Joint)
 - NNDR (Joint)
 - Pro-Active Anti-Fraud Review (Joint)
 - S106 Commuted Sums (Joint)
 - Sundry Debtors (Joint)
 - Treasury Management (Joint)

14. Planned audit work which is currently ongoing and has been scheduled for quarter two is as follows:

Joint Audits	SODC Audits	VWHDC Audits
Project Management HR Grievance Procedure Health and Safety Leisure Centres HR Recruitment International Financial Reporting Standards Time Management Across SODC/VWHDC	Leader Project Assurance Leader Project Grant Verification Cash Office Cornerstones - EP, DR & BCP	Handling of Postal Cash and Cheques Car Loans Licensing

15. Follow-up work which is scheduled for quarter two is as follows:

Joint Audits	SODC Audits	VWHDC Audits
Bank Reconciliation process Design VFM in Procurement Housing and Council Tax Benefits Overpayments and Recovery Follow-Up	Facilities Management	

Financial Implications

16. There are no financial implications attached to this report.

Legal Implications

17. None

Risk Implications

18. Identification of risk is an integral part of all audits

Audit & Governance Committee report



30 June 2010

Report of **Head of Finance**

Report no. 17/10

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Wards Affected
All

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To: Audit and Governance Committee

Date: 30 June 2010

Treasury Management – review of activity 2009-10

Recommendations

- (a) *to note the return on cash invested during 2009/10 and the balances of the funds at 31 March 2010.*
- (b) *To note the prospects for the return on investments in 2010-11*
- (c) *to make any comments to be considered by the Executive at their meeting on 2nd July 2010.*

Purpose of Report

- 1.1 The Vale Council's Treasury Management Policy requires a report to be made on treasury management performance in the previous financial year. It is also required by the CIPFA Treasury Management Code of Practice as embodying sound financial management.
- 1.2 This report details the Council's cash investment performance in the financial year 2009/10 and highlights any treasury management issues. The return on investment property is included in the 2009/10 Revenue Budget Out-turn report which is on the agenda for Executive in September.

Strategic Objectives

- 2.1 The report helps us to achieve our strategic objective of managing our business effectively by providing transparency and demonstrating effective management of our investments. The income from the investment portfolio contributes to the revenue budget.

Background

- 3.1 This report outlines the performance over the last financial year of those funds managed in-house and those managed by *Investec Asset Management*, the Council's appointed investment manager. The Fund Manager's performance is reviewed by *Butlers*, the Council's investment adviser. In addition, the report presents Members with a general overview of the current situation in the investment market.

In-house Investment Performance

- 3.2 At the beginning of 2009/10 cash managed in-house totalled £2.7m. During the year the maximum invested at any time was £20.5m and the total of investments made (turnover) was £162m. In-house investment income in the year amounted to £128,103 on an average balance of £11.94m - an average return of 1.07%. At 31 March 2010 the cash managed in-house totalled £0.59m
- 3.3 It was necessary to borrow £2m at 0.48% for 17 days at the end of the year and another £0.7m at 0.4% for 2 days in order to cover a temporary cash flow shortage. This was well within the authorised borrowing limit of £5m agreed by the Council in the annual Treasury management Strategy.
- 3.4 It is difficult to set targets for this sort of operation which aims to maximise returns within the constraints of security, liquidity and flexibility. Some measure of achievement can be obtained by looking at the rates achieved compared to a benchmark. *Butlers* use the widely published 7-day LIBID rate (London Inter-bank Bid rate – the rate at which a bank is willing to borrow from other banks) although this has become very erratic in the current economic circumstances.

In-house investment performance against benchmark.

Rate of return:	2007/08	2008/09	2009/10
In-house investment team	5.93%	4.84%	1.07%
7 day LIBID	5.72%	3.60%	0.37%
LIBID exceeded by:	0.21%	1.24%	0.70%

The Council only holds funds to meet its daily cash-flow requirements and also invests the council tax and business rate receipts for a short temporary period until they are due to be paid over to precepting authorities or central government. The weighted average life of this council's investments in the year was only 19 days. (The weighted average life is an average of the length of period of investment with a £2m loan counting twice a £1m loan etc.) The current, restricted availability of suitable counter-parties (i.e: the financial institutions to whom we are willing to lend) and the present very low rates available (the costs of lending £500,000 overnight exceeds the income achieved) has meant that it has not been possible to achieve the rates of return seen in previous

years. This is common to all local authorities and not just this Council. The market still expects the next movement in rates will be a steady climb so authorities with more funds at their disposal can take advantage of the better rates on offer for longer periods but, of course, will have to be careful who they are dealing with. For comparison the other Oxfordshire districts have been asked for their returns in 2009-10. If these are received in time they will be circulated at the meeting.

External Fund Managers

- 3.5 The performance in 2009/10 is set out below showing the fund manager's return before payment of fees.

Sum Managed at 1.4.2009	£15,115,968
Sum Managed at 31.3.2010	<u>£15,334,221</u>
Increase in value during year (gross)	£ 218,253

The Council's money is held in what is known as a 'cash plus' fund and the manager is allowed to hold a wider range of investments within the constraints that apply to local authorities and the requirement for security mentioned above. This includes certificates of deposit (CDs) and government-issued stock (gilts) which may be held with the intention of making a return, not just from the yield, but from changes in value over a period. For this reason the return above may be unrealised at the year-end and the fund manager is allowed to retain this increase value within the fund until it is needed to be paid over to the council.

- 3.6 The result for *Investec* shown above equates to a gross rate of return (i.e. before fees) of 1.44% (1.31% after fees). References to fees relate to the actual charges made per quarter. In accordance with industry practice the fund manager deducts the fees from the sums held but these are accounted for as a revenue cost by the Council.

Investec Performance over 3 years (net of fees)

Rate of return:	2007/08	2008/09	2009/10
Investec Asset Management	5.86%	7.42%	1.31%
7 day LIBID	5.72%	3.60%	0.37%
LIBID exceeded by:	0.14%	3.82%	0.94%
Comparable LA funds average*	5.79%	6.48%	1.37%
Average exceeded/(short) by:	0.07%	0.94%	(0.06%)

- 3.7 The Council's investment advisers (*Butlers*) provide the comparative figures* and have reported on the state of the market and the performance of the fund manager (*Investec*). They commented that the economic climate meant that performances for the year still suffered from the problems of low and declining yields and interest rates. Extreme volatility meant that the risk of loss from tactical trades in the gilt-edged market was a major deterrent to investment in this area. They point out that some of the advantages of a segregated fund such as this are top-quality counterparties and good liquidity, which are valuable attributes in the current difficult economic climate.

Investment Income Review

- 3.8 The actual investment income achieved in 2009/10 was well below the original budget forecast by £0.445m (£0.791m to £0.346m) although it was ahead of the revised forecast done February 2010 by £8,356.

Out-turn compared with budget – investment income earned

	Fund manager	In-house team	total
Original budget 2009-10	£ 512,400	£ 279,000	£ 791,400
Actual out-turn 2009-10	£ 218,253	£ 128,108	£ 346,361
Out-turn short of budget by:	£ 294,147	£ 150,892	£ 445,039

The actual return achieved was 43.8% of the budget and this was due to the fact that interest rates dropped to (and then have held at) an historic low; this was not anticipated when the budget for 2009/10 was being drawn up in January 2009.

Events during the year

- 3.10 This has been a much quieter year for the council. The Bank of England (BoE) reduced its Base Rate to 0.5% (the lowest rate on record) in March 2009 and has held it at that level since. This has seen a corresponding drop in both LIBOR (the London Inter-bank Offered Rate) and the LIBID. The Government's Debt Management Office (DMO) is offering rates at about 0.25%. As a comparison, if the Council had invested its surplus funds with the safer DMO investment facility, the total return for the in-house investments would have been less than £25,000, which is about one quarter of that actually achieved (note: these comparator figures exclude interest from investments made in 2008/09 that matured in 2009/10 and deposits on call with money market funds).
- 3.11 The Council still holds a fixed-term deposit of £1m with Landsbanki, one of the Icelandic banks in administration. Recovery of these investments by public authorities is being pursued as a group action by the LGA through the Icelandic courts and the Council is still anticipating to receive a substantial proportion of this deposit (and accrued interest) back.

Forward look to 2010/11

- 3.12 The outlook for Treasury in 2010/11 is similar to the previous year. Markets are continuing to remain volatile and unpredictable. Economic recovery is likely to be slow, and correspondingly, the BoE Monetary Policy Committee (MPC) is unlikely to risk jeopardising the "green shoots" through interest rate changes. That said, recent increases in the level of the Consumer Price Index (CPI) above the target 2.0%, may see the base rate increase in the near future. Analysts are predicting the rate to increase around the middle of the financial year. LIBOR and LIBID have shown signs of steadily increasing in the recent months.
- 3.13 The effect of rising rates will mean that the rate of return on investments for the Council would be better than 2009/10. A series of short-term investments will always do better in a market with rising interest rates – this will suit the Council's in-house investments.
- 3.14 The estimate of investment income for the 2010/11 budget was based on economic predictions in January 2010, which had the BoE base rate rising to 1.5% by the end of the year - current indications are that this may not happen and the fund manager has

consequently revised his forecast of the probable return for the year down to 1.5% from 2.0%. This will also mean that the in-house return will be a little worse than expected.

Options

- 4.1 Not applicable as this is an information report, however it recommended that there are no changes to the Treasury Management process.

Financial Implications

- 5.1 The report gives financial information to help Members oversee the treasury management function. The budgeted net income for 2010/11 is £489,900 and whilst there is no additional expenditure involved, the report raises the prospect of a continuing shortfall in investment income in 2010-11 against this budget. This will be reflected in the in-year budget monitoring reports.

Legal Implications

- 6.1 Other than the current litigation regarding the Icelandic Bank deposit which is being administered by the LGA, there are no legal implications to this report.

Risks

- 7.1 Treasury investments are made using the following principles (listed in order of priority):

- Security – certainty of return of the principal invested.
- Liquidity – the principal is returned at the time required for effective cashflow management.
- Yield – the Council achieves the best return on investment as possible without unnecessary exposure to risk.

- 7.2 Treasury Management Practices lay down good practice to follow in order to reduce the level of risk involved in the treasury activities as much as possible; however, with the volatility of the markets, there will always be an element of exposure to risk. To reduce risk to its absolute minimum would mean that the level of return on investments will impact upon the revenue income of the Council.

Other implications

- 8.1 None – information report.

Conclusion

- 9.1 The return on cash invested was considerably lower than initially anticipated in 2009/10 due to the sustained very low interest rates – the outturn position was very close to that expected during budget monitoring revisions. It will remain difficult to achieve the budgeted return in 2010-11 if interest rates do not rise over the year as market analysts were predicting in January 2010, and market conditions continue to restrict the available counter-parties the in-house team can lend to – this has been reflected in the lower budget set for 2010/11.

Background Papers

- Treasury Management Policy agreed by Council 19 December 2001

- Treasury Management Strategy agreed by the Executive February 2010
- Fund manager review published by Butlers 7 May 2010

AUDIT AND GOVERNANCE WORK PROGRAMME

containing Audit and Governance Committee work to be undertaken
1 APRIL 2010 - 31 MARCH 2011



The audit and governance work programme belongs to the council's Audit and Governance Committee and sets out a schedule of work for the period shown above. It is a rolling plan, subject to change at each Audit and Governance Committee meeting; however, the council may allocate additional work.

You can make representations on any issue below. Please contact the officer shown below by 10am on the day the committee is due to meet.

Page 53

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Business continuity - update	Audit and Governance Committee 30 Jun 2010	Geoff Bushell Tel. 01491 823024 Email: geoff.bushell@southoxon.gov.uk	The council has a business continuity strategy. The committee is asked to monitor delivery of the strategy.	To review progress against delivery of the business continuity strategy.	
Internal audit annual report 2009/10	Audit and Governance Committee 30 Jun 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk	The committee undertakes an annual review of the activity of the council's Internal Audit.	To review Internal Audit activity in 2009/10 and recommend any corrective actions.	

Agenda Item 12

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Internal audit activity first quarter 2010/11	Audit and Governance Committee 30 Jun 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk	The council audits its own services through the Internal Audit service	To review the outcomes from the internal audits and recommend any further actions or improvements. This item will appear on the agenda for each committee meeting	This item contains several reports from Internal Audit.
Internal audit management report first quarter 2010/11	Audit and Governance Committee 30 Jun 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk	The council sees Internal Audit as an important service, undertaking an essential role in ensuring that services are operating effectively and securely. The committee should ensure that the Internal Audit plan is met.	To monitor the management of Internal Audit. This item will appear on the agenda for each committee meeting	
Treasury management - review of activity 2009/10	Audit and Governance Committee 30 Jun 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk			

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Statement of accounts 2009/10	Audit and Governance Committee 30 Jun 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk	The council has to produce and sign off a draft statement of accounts by 30 June each year. The accounts will then be audited by the Audit Commission before being resubmitted to the committee for final approval and sign off by 30 September each year.	To review the draft statement of accounts and approve them for signing off and audit by the Audit Commission.	The meeting to approve the accounts but be as late as possible in June to allow time for preparation but must be signed off by 30 June. The statement of accounts will include the annual governance statement.
Treasury management strategy - annual review	Audit and Governance Committee 15 Sep 2010	William Jacobs, Head of Finance Tel. 01235 540455 Email: william.jacobs@southandvale.gov.uk	The council has set a treasury management strategy and policy. The effectiveness needs to be scrutinised by the Audit and Governance Committee.	To scrutinise the treasury management strategy.	
Comments and complaints review 2009/10	Audit and Governance Committee 15 Sep 2010	Lesley Hawkins Tel. (01235) 540303 Email: lesley.hawkins@whitehorsedc.gov.uk	The council has a comments and complaints procedure. The comments and complaints are reviewed annually by the committee.	To review the comments and complaints received in 2009/10 and recommend any corrective actions.	

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Statement of accounts 2009/10	Audit and Governance Committee 15 Sep 2010	William Jacobs, Head of Finance Tel. (01235) 540455 Email: william.jacobs@southandvale.gov.uk	The council has to produce and sign off a draft statement of accounts by 30 June each year. The accounts will then be audited by the Audit Commission before being resubmitted to the committee for final approval and sign off by 30 September each year.	To review the draft statement of accounts and approve them for signing off.	The meeting to approve the accounts but be as late as possible in September to allow time for preparation but must be signed off by 30 September.
Annual Audit Letter	Audit and Governance Committee 12 Jan 2011	Steve Bishop, Strategic Director and Section 151 Officer Tel. (01235) 540332 Email: steve.bishop@southandvale.gov.uk	Each year the council receives an annual audit letter from the Audit Commission following an audit the council's performance over the previous year.	To consider the annual audit letter and recommend any action to the Executive.	
Treasury management strategy - half year review	Audit and Governance Committee 12 Jan 2011	William Jacobs, Head of Finance Tel. 01235 540455 Email: william.jacobs@southandvale.gov.uk	The council has set a treasury management strategy and policy. The effectiveness needs to be scrutinised by the Audit and Governance Committee.	To scrutinise the half-year performance of the treasury management strategy.	

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
Audit opinion plan 2010/11	Audit and Governance Committee 9 Mar 2011	Steve Bishop, Strategic Director and Section 151 Officer Tel. (01235) 540332 Email: steve.bishop@so uthandvale.gov.u k	Each year the council receives an Audit Opinion Plan from the Audit Commission setting out the work required over the next year to audit the council's performance over the previous year.	To receive the Audit Opinion Plan 2010/11 from the Audit Commission.	