



Ridgeway Shared
Service
Partnership



Internal Audit Report

Oxfordshire Waste Partnership 2008/09

VALE OF WHITE HORSE DISTRICT COUNCIL

Final Issued: 6 June 2008

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MANAGEMENT SUMMARY

1. INTRODUCTION

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to Oxfordshire Waste Partnership (OWP). In accordance with the Oxfordshire Waste Partnership Agreement, the Vale of White Horse District Council is the appointed Auditing Authority and as such holds the authority to review the OWP's financial and other internal controls. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 Oxfordshire County Council (OCC) is the appointed accounting authority and Cherwell District Council (CDC) employ the only officer whose time is fully allocated to the OWP as the OWP co-ordinator.
- 1.3 The following areas have been covered during the course of this review as stipulated by the external auditors:
- Appropriate books of account have been properly kept throughout the year.
 - The body's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.
 - The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
 - The annual taxation or levy requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
 - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
 - Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.
 - Salaries to employees and allowances to members were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.
 - Asset and investment registers were complete and accurate and properly maintained.
 - Periodic and year-end bank account reconciliations were properly carried out.
 - Year-end accounts were prepared on the correct accounting basis (receipts and payments/income and expenditure), agreed with cash book, were supported by an adequate audit trail from underlying records, and, where appropriate debtors and creditors were properly recorded.
- 1.4 Many OWP transactions are processed in accordance with OCC's financial procedure rules. Where able, Internal Audit has placed assurance on OCC's Internal Audit reports as to the adequacy and effectiveness of controls in place within those systems. Specifically, this applies to the Financial records and Transactions, Budgetary Control and Bank Reconciliation.

2. BACKGROUND

- 2.1 The OWP is a relatively recent arrangement between the county and district councils of Oxfordshire. The OWP has a number of core objectives including:
- reduce waste,
 - promote waste reduction,
 - seek sustainable solutions for waste,
 - meet or exceed targets for waste reduction and work together through the provision of co-ordinated services to maximise the efficient use of resources.

3. PREVIOUS AUDIT REPORTS

- 3.1 The end of year financial arrangements of the OWP have not previously been subject to an Internal Audit review. The Vale of the White Horse District Council has reviewed the arrangements for the 2007/08 financial year but this role will be passed to another member for the 2008/09 financial year.

4. 2007/08 AUDIT ASSURANCE

- 4.1 **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.
- 4.2 Three recommendations have been raised in this review. One High and two Medium.

5. MAIN FINDINGS

5.1 Financial Records and Transactions

- 5.2 All payments/orders are processed through the OCC financial system. The OWP Co-ordinator stated that a general problem is that he cannot access the financial records relating to the OWP. He is dependent upon the information received from the accounting authority – OCC.
- 5.3 The Strategic Finance Manager (Oxfordshire County Council) provided Internal Audit with an overview of how the OWP is operated within their SAP financial information system. OWP is a separate Level 2 account and as such is clearly separate from other cost centres.
- 5.4 The accounts for 2007/08 show a surplus of £81,438. This is due to the Waste and Resources Action Plan (WRAP) funding one off project shortfall on income of £212,685, offset by the reduction in expenditure of £294,122 (the majority of which is the contra side of the WRAP shortfall). This is being carried forward via the balance sheet into the 2008/09 OWP accounts. The accounts appear comprehensive and clear.
- 5.5 It was confirmed to Internal Audit that all OWP related transactions are treated according to the financial procedure rules for their respective councils
- 5.6 No payments can be made on the system without an invoice being raised with an appropriate order. A sample of seven invoices were checked to ensure that VAT had been added where appropriate and that the amount on the invoice was reflected in the General Ledger with all correct details being recorded. In all cases the invoices were appropriately authorised, VAT added where appropriate and in all cases, the amounts on the invoices reconciled to the General Ledger.
- 5.7 From the above testing it appears that all expected income in 2007/2008 was fully received, based on correct prices and properly recorded. One recommendation has been made as a result of our work in this area.

5.8 Budgetary Control

- 5.9 The OCC Head of Waste Management is the cost centre manager for OWP.
- 5.10 The OWP Co-ordinator stated the budget monitoring meetings have to date, been quite informal and there have been no minutes. He also stated that they are hoping to formalise this area during the 2008/09 financial year. The meetings will then be minuted. The Strategic Finance Manager (Oxfordshire County Council) re-iterated that the budget process is as per OCC's normal budgetary process.
- 5.11 In future, there will be quarterly meetings that the OWP Co-ordinator also attends.
- 5.12 Whilst the budget is internally reviewed at OCC, budget monitoring reports are not available for all relevant partners.
- 5.13 As stated previously, the accounts appear to be well managed and variances

are identified and clearly shown.

5.14 There are no reserves in the normal sense. There was a contingency of £20,000 for 2007/08 and this will also be available for 2008/09, but will be reviewed during the course of the year to assess its adequacy. Because this is a relatively new process, it is currently difficult to assess the exact requirement. One recommendation has been made as a result of our work in this area.

5.55 **Risk Management**

5.16 There is currently no completed risk register for OWP. An OWP Joint Action Plan was provided to Internal Audit, and this includes the first steps towards a risk register, however, this has yet to be started.

5.17 Whilst the Action Plan does refer to risk, it is not the driving factor and therefore there are no formal actions identified to mitigate the risks. One recommendation has been made as a result of our work in this area.

5.18 **Petty Cash**

5.19 There is no petty cash float specific to the OWP.

5.20 **Payroll**

5.21 There is only one OWP employee, the OWP Co-ordinator who is employed by Cherwell DC. Internal Audit met with the Head of Payroll at Cherwell District Council who accessed his payroll details on the payroll system and his personnel file.

5.22 His contract was shown to Internal Audit and it is a standard Cherwell employee contract of employment – non-specific to the OWP. His payroll details for April 2008 were examined and appeared in order. Based upon the monthly gross salary and the NI code, Internal Audit requested a member of the SODC Payroll team to re-perform the calculation for PAYE and NI contributions for the April salary. Both were confirmed to be correct.

5.23 **Asset and Investment Registers**

5.24 There are no asset or investment registers for the OWP as it has no assets.

5.25 **Bank Reconciliations**

5.26 There is no separate bank account for OWP and all transactions are treated as normal OCC transactions.

5.27 Therefore, OWP Bank Reconciliation is part of the normal OCC Bank Reconciliation process and is not specific to OWP transactions. Internal Audit was informed that the Strategic Finance Manager (Oxfordshire County Council) is not aware of any problems to date.

5.28 **Year End Accounts**

- 5.29 Internal Audit was provided with a copy of the Oxfordshire Waste Partnership Annual Report 2007/08 which has been produced. This reports the same outturn figures as provided by the Strategic Finance Manager.
- 5.30 He also stated that the year end figures are produced in accordance with OCC's FPR's.
- 5.31 As stated previously, these figures can be followed through from the transaction listings to the end of year figures.

6. ACKNOWLEDGEMENTS

- 6.1 Internal Audit would like to take this opportunity to thank all staff involved for their assistance with the audit.

7. CATEGORISATION OF RECOMMENDATIONS

- 7.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

High Fundamental control weakness for senior management action

Medium Other control weakness for local management action

Low Recommended best practice to improve overall control

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL RECORDS AND TRANSACTIONS

1. Access to OCC Financial Information System

Medium

Recommendation	Rationale	Responsibility
That consideration be given to providing the OWP Co-ordinator (Cherwell District Council) with read only access to the relevant part of OCC's financial information system.	<p><u>Best Practice</u> The officer responsible for managing and co-ordinating the OWP should have access to the financial information system to see at any time the position of the accounts.</p> <p><u>Findings</u> The OWP Co-ordinator (Cherwell District Council) does not have access to the OCC financial information system detailing OWP transactions.</p> <p><u>Risk</u> If the OWP Co-ordinator (Cherwell District Council) is unable to access the financial information system, he may not be aware of transactions that have occurred, nor the financial position of OWP.</p>	OWP Co-ordinator (Cherwell District Council)/ Strategic Finance Manager (Oxfordshire County Council)
Management Response		Implementation Date
Recommendation is Agreed/Agreed in Principle/Not Agreed		To be discussed and agreed with OCC

BUDGETARY CONTROL

2. Monitoring Meeting and Reports

Medium

Recommendation	Rationale	Responsibility
That the budget monitoring process be formalised to include diarised formal budget monitoring meetings for the whole financial year, that these be minuted and that monthly budget monitoring reports be provided to the OWP Co-ordinator (Cherwell District Council)	<p><u>Best Practice</u> The officer responsible for managing and co-ordinating the OWP should be provided with regular monitoring reports and the opportunity to discuss his budget regularly with the cost centre manager.</p> <p><u>Findings</u> The budget monitoring meetings are infrequent as are the budget monitoring reports that are received by the OWP Co-ordinator (Cherwell District Council).</p> <p><u>Risk</u> The OWP co-ordinator may not be aware of transactions that have occurred, furthermore he them has to spend more time contacting OCC officers to obtain the information he requires.</p>	OWP Co-ordinator (Cherwell District Council)/ Strategic Finance Manager (Oxfordshire County Council)
Management Response		Implementation Date
Recommendation is Agreed/Agreed in Principle/Not Agreed		Jul 08

RISK MANAGEMENT

3. Risk Register

High

Recommendation	Rationale	Responsibility
That a risk register be completed for the OWP function as a whole.	<p><u>Best Practice</u> An up to date risk register should be in existence.</p> <p><u>Findings</u> There is no risk register in existence.</p> <p><u>Risk</u> Without an up to date risk register, officers may not be aware of all risks to the achievement of the OWP objectives and therefore do not take the necessary action to mitigate those risks to an acceptable level.</p>	OWP Co-ordinator (Cherwell District Council)
Management Response		Implementation Date
Recommendation is Agreed/Agreed in Principle/Not Agreed		Jul 08

APPENDIX 1 – AUDIT FRAMEWORK

1. AUDIT OBJECTIVES

- 1.1 The audit was designed to ensure that management have implemented adequate and effective controls over the OWP.

2. AUDIT APPROACH AND METHODOLOGY

- 2.1 The audit approach was developed with reference to the Internal Audit Charter and by an assessment of risk and management controls operating within each area of the scope.

- 2.2 The aim of the audit was to establish if:

- there are adequate internal controls in effective and efficient operation;
- the processes are meeting the requirements of internal policy and procedural standards; and
- the processes are meeting external codes of practice, professional and statutory regulations.

- 2.3 The following procedures were adopted:

- identification of the role and objectives of each area;
- identification of risks within the systems and controls in existence to allow the control objectives to be achieved; and
- evaluation and testing of controls within the systems.

From these procedures we have identified weaknesses in the systems of control, produced specific proposals to improve the control environment and have drawn an overall conclusion on the design and operation of the system.

APPENDIX 2 – STAFF INTERVIEWED AND REPORT DISTRIBUTION

1. STAFF INTERVIEWED

- 1.1
- Wayne Lewis, OWP Co-ordinator (Cherwell District Council)
 - Carolyn Durrant, Waste Management (Oxfordshire County Council)
 - Andrew Dyson, Senior Auditor (Oxfordshire County Council)

2. REPORT DISTRIBUTION

2.1 A copy of this draft has been distributed to the following officers:

- Wayne Lewis, OWP Co-ordinator (Cherwell District Council)
- Rob Finlayson, Strategic Finance Manager (Oxfordshire County Council)
- Steve Bishop, Strategic Director (Vale of White Horse District Council)

STATEMENT OF RESPONSIBILITY

Internal Audit takes responsibility for this report, which is prepared on the basis of the limitations set out below.

INTERNAL AUDIT JUNE 2008

Contact Persons:	
Harry Oliver	Senior Auditor Tel: 01491 823840 (SODC) / 01235 520202 ext 474 (VWHDC)
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The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work should not be taken as a substitute for management's responsibilities for the application of sound practices. We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Nor should internal audit work be relied upon to identify all circumstances of fraud or irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report has been prepared solely for OWP's use. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

AGREEMENT OF AUDITEE

I have been briefed on the findings of this audit and have had an opportunity to discuss them with the auditor. I have read the rationale provided for the recommendations made, and have provided and take responsibility for my management response and proposed implementation dates.

Signed:	
Job Title:	
Date:	

Please return this signed report to the Audit Manager, and keep a copy for your records.