



Ridgeway Shared
Service
Partnership



Internal Audit Report

Oxfordshire Waste Partnership 2009/2010

VALE OF WHITE HORSE DISTRICT COUNCIL

Final Issued: 9 July 2009

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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 the Oxfordshire Waste Partnership (OWP). The audit has been undertaken in accordance with the 2009/2010 Audit Plan agreed with the Audit and Governance Committee of Vale of White Horse District Council (VWHDC). The audit approach is provided in the audit framework in Appendix 1.

1.2 The following areas have been covered during the course of this review:

- 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.
- Salaries to employees and allowances to members were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.
- 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.

2. BACKGROUND

2.1 The Vale of White Horse District Council is appointed as OWP's auditing authority, and as such holds the authority to review OWP's financial and other internal controls. The OWP is a relatively recent arrangement between the county and district councils of Oxfordshire. The OWP has a number of core objectives including:

- To 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.

- 2.2 Oxfordshire County Council (OCC) is the appointed accounting authority and Cherwell District Council (CDC) is the employing authority for OWP officers. Many OWP transactions are processed in accordance with OCC's financial procedure rules. Where able, Internal Audit has placed reliance on OCC's internal processes 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.

3. PREVIOUS AUDIT REPORTS

- 3.1 The OWP was last subject to an internal audit review in May 2008, three recommendations were raised and a Satisfactory opinion was issued.
- 3.2 Two of the recommendations have been implemented and the third did not prove possible and has been superseded by events.

4. 200/2010 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 Six recommendations have been raised in this review. One High risk, four Medium risk and one Low risk.

5. MAIN FINDINGS

5.1 Financial Records and Transactions

5.2 All payments/orders go through the OCC financial information system (SAP). Internal Audit examined transactions for 2008/09, and it was noted that there were a number of miscodings. It is the opinion of Internal Audit that an exercise should be undertaken to ensure that there are no other incorrectly posted entries within the accounts.

5.3 At the time of the previous year's review, the OWP had no fixed assets. Internal Audit was informed that during 2008/09, Oxford City Council purchased a street cleaning machine. Oxford City Council also maintains it, but there are issues and uncertainty over the insurance cover surrounding it. It is thought that in future, more equipment may be purchased under the guise of OWP, and for this reason an asset register needs to be created. Two recommendations have been made as a result of our work in this area.

5.4 Budgetary Control

5.5 At the time of the previous review, the monitoring of the budget had not been formalised and set up. However, this has since changed. Regular reports are received, recharges occur quarterly and there are regular meetings with finance officers. This is a significant improvement. However, it was noticed that Oxford City Council had not made their contribution to the 2008/09 budget within the accounting year. It transpired that their payment of £45,426 was received on the 28th April 2009. One recommendation has been made as a result of our work in this area.

5.6 Risk Management

5.7 At the time of the previous audit, there was no risk register in place for the OWP. This has since changed and a risk register was created during 2008/09, which is reported to Committee and the Officer Group quarterly. However, there is currently no risk management policy. During discussions with officers it also became apparent that the officers of the OWP have not attended any risk management training. Internal Audit also questioned whether performance in risk management is measured against best practice, and this is something that the Waste Partnership Officer is aware of and appreciates the need to benchmark against other organisations. Three recommendations have been made as result of our work in this area.

5.8 Salaries

5.9 Officers of the OWP are employed by and paid by Cherwell District Council. At the time of the previous review, there was one employee but this has increased to three. The salaries were checked to Cherwell District Council's pay scales for both 2008/09 and 2009/10. In addition the March and April salaries for the three employees were checked to ensure all deductions had been correctly undertaken. No recommendations have been made as a result of our work in this area.

5.10 **Bank Reconciliations**

5.11 There is no separate bank account for OWP and all transactions are treated as normal OCC transactions. Therefore, the OWP bank reconciliation is part of the normal OCC bank reconciliation process and is not specific to the OWP. OCC's bank reconciliation process has been subject to review by their own internal auditors, and concerns noted were discussed with officers and the relevant recommendations are being implemented. No recommendations have been made as a result of our work in this area.

5.12 **Year End Accounts**

5.13 All OWP year end figures are produced in accordance with OCC's Financial Procedure Rules. In addition, OCC's Internal Audit team has undertaken work which has addressed certain issues during the 2008/09 financial year, including the classification and revenue and capital expenditure. From the testing undertaken by Internal Audit against objective one, we have no concerns in this area. No recommendations have been made as a result of our work in this area.

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 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

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL RECORDS AND TRANSACTIONS

1. Coding

(Low Risk)

Recommendation	Rationale	Responsibility
That an exercise be undertaken to ensure that all invoice payments have been correctly coded.	<p><u>Best Practice</u> All invoices should be correctly coded and staff should be aware of which codes to use.</p> <p><u>Findings</u> Whilst examining account 12531, Professional Fees, it was noticed that there were a number of payments for advertising, totalling £3,500 which were miscodings.</p> <p><u>Risk</u> If incorrect codes are used to post invoices, the accounts will be misstated and under and overspends may be incorrectly reported.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed Codings will be checked quarterly. Management Response: OWP Co-ordinator		June 09

2. Assets

(Medium Risk)

Recommendation	Rationale	Responsibility
That consideration be given to creating an asset register for items of value, and in addition, the issue surrounding the insurance of the street cleaning machine be resolved.	<p><u>Best Practice</u> All items that are owned or the OWP has responsibility for above a certain value should be recorded either on an inventory or an asset register.</p> <p><u>Findings</u> At the time of the previous year's review, the OWP had no fixed assets. Internal Audit was informed that during 2008/09, Oxford City Council purchased a street cleaning machine. Oxford City Council also maintains it, but there are issues and uncertainty over the insurance cover surrounding it. Internal Audit was informed that in the future, it is likely that more equipment will be purchased under the guise of OWP.</p> <p><u>Risk</u> If items of significant value are not officially recorded, they may not be accounted for correctly at year end.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed Will seek resolution of insurance issues for street cleaning machine with Oxford City. Will create asset register only if further items of value are purchased. Management Response: OWP Co-ordinator		October 2009

BUDGET MONITORING

3. Payments

(Medium Risk)

Recommendation	Rationale	Responsibility
That a payment schedule is created to ensure that payments to the OWP are made promptly by respective partner members.	<p><u>Best Practice</u> All partner members of the OWP should pay their contributions promptly and to an agreed schedule.</p> <p><u>Findings</u> Oxford City Council did not pay their contribution of £45,426 for 2008/09 until 28th April 2009.</p> <p><u>Risk</u> If partners do not pay their contribution promptly, there is a risk that funds may not be available to action projects.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed in Principle All partner councils were invoiced by OCC in a timely manner. There appears to have been an undue delay by debtors at Oxford City Council. Management Response: OWP Co-ordinator		July 2009

RISK MANAGEMENT

4. Risk Management Policy

(High Risk)

Recommendation	Rationale	Responsibility
That a risk management policy should be created which: <ul style="list-style-type: none"> • defines risk management; • details the role of risk management within OWP; • details the responsibilities for risk management within OWP; • Describes the risk management process. 	<p><u>Best Practice</u> The OWP should have a risk management policy in place which defines risk management and the role of risk management within the OWP.</p> <p><u>Findings</u> The OWP has created a Risk Management Strategy in place which has been reported to committee, however, there is currently no risk management policy in place. This is an area that the OWP Co-ordinator intends to review in the near future to ensure that the OWP is fully compliant with all risk management requirements.</p> <p><u>Risk</u> Without a clearly defined risk management policy, the responsibilities and the risk management process may not be clear to member councils and officers of the OWP.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed Management Response: OWP Co-ordinator		October 2009

5. Training**(Medium Risk)**

Recommendation	Rationale	Responsibility
That appropriate officers within the OWP are provided with training in risk management.	<p><u>Best Practice</u> Appropriate officers should have received training in risk management.</p> <p><u>Findings</u> Currently, officers of the OWP have not attended training in risk management.</p> <p><u>Risk</u> If the relevant officers have not received the appropriate training in risk management, they may be unaware of all that is required to implement an effective risk management regime.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed Management Response: OWP Co-ordinator		October 2009

6. Performance**(Medium Risk)**

Recommendation	Rationale	Responsibility
That the OWP's performance in risk management is measured against best practice.	<p><u>Best Practice</u> The OWP's performance in risk management is regularly benchmarked against other partnerships and forums.</p> <p><u>Findings</u> Currently the OWP's performance in risk management is not measured against best practice.</p> <p><u>Risk</u> If performance in risk management is not benchmarked the OWP may be unaware of improvements that could be incorporated into its approach.</p>	OWP Co-ordinator
Management Response		Implementation Date
Recommendation is Agreed OWP's current approach to risk management is currently being reviewed by the OCC Partnership Unit. Management Response: OWP Co-ordinator		October 2009

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 Baxter, Interim Head of Waste Management (Oxfordshire County Council)
 - Rob Finlayson, Finance Business Partner (Oxfordshire County Council)

2. REPORT DISTRIBUTION

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

- Wayne Lewis, OWP Co-ordinator (Cherwell District Council)
- Carolyn Baxter, Interim Head of Waste Management (Oxfordshire County Council)
- Rob Finlayson, Finance Business Partner (Oxfordshire County Council).
- Steve Bishop, Strategic Director (Section 151 Officer 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 JULY 2009

Contact Persons:	
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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 VWHDC 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.