



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit – Annual Report 2007-08

Oxford City Council
DRAFT 10 June 2008

AUDIT

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Report status	
Draft issued	9 th June 2008
Final report issued	
Presented to Audit and Governance Committee	25 th June 2008

Distribution for action:	Distribution for information:
Penny Gardner/Sarah Fogden - Head of Finance	Peter Sloman – Chief Executive Tim Sadler, City Services Director Mel Barrett, City Regeneration Director

- This Report has been prepared on the basis set out in our Contract, and should be read in conjunction with the Contract.
- This Report is for the benefit of Oxford City Council and the other parties that we have agreed in writing to treat as addressees of the Contract (together with the Beneficiaries), and has been released to the Beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.
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1. Executive Summary (including Head of Internal Audit Opinion)

Introduction

KPMG LLP has provided the internal audit service to Oxford City Council ("the Authority") for the year 1 April 2007 to 31 March 2008. Our work has been carried out in accordance with the Internal Audit Plan, approved by the Audit and Governance Committee, and was designed to allow us to make a statement on the adequacy and effectiveness of Oxford City Council's risk management, control and governance processes.

The purpose of this report is to provide the Authority with a commentary of internal audit activity. In particular, this Annual Report sets out:

- our assessment of the adequacy and effectiveness of the Authority's risk management, control and governance processes;
- the work undertaken to formulate our assessment; and
- the performance of internal audit against the plan for the year.

Role of Internal Audit and Management

The primary responsibility for maintaining risk, control and governance arrangements rests with management and specifically the Audit and Governance Committee and the Section 151 Officer who are responsible for ensuring that adequate systems of internal control are in place.

It is the Authority's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-controlled manner. The responsibility for the prevention and detection of irregularity rests with the Authority. We plan our work so that we have a reasonable expectation of identifying where potential for material fraud exists but our audit should not be relied upon to identify all such areas nor disclose all fraud and/or irregularities that may exist.

As internal auditors, we are required by the CIPFA Standards to provide the Authority with an opinion on the adequacy and effectiveness of its internal control environment. Such a control environment comprise risk management, control and governance processes. In giving this opinion it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

Planned coverage and output

The audit plan for 2007/8 was based upon an internal audit needs assessment including comments from management and Members of the Audit and Governance Committee. The plan for the period ended March 2008 is reproduced at Appendix A. This includes the number of days initially allocated to and spent on each review. Overall the Authority agreed to an input of 350 days and we have delivered 324, a reduction of 26 days. Further details in relation to the difference in days can be found at Appendix A.

1. Executive Summary (including Head of Internal Audit Opinion)

Performance of the internal audit service

The internal audit service has complied with CIPFA Standards throughout the year. We have achieved our targets for issuing draft terms of reference and finalising reports after receipt of management responses. Our performance for issuing draft reports dipped slightly when compared to 2006/07 and requires improvement likewise the timeliness with which management responses are received.

Overall assurance

As internal auditors, we are required by the CIPFA Standards to provide the Authority with an opinion on the adequacy and effectiveness of its internal control environment. In assessing the level of assurance to be given, we based our opinion on:

- The audits undertaken during the year;
- Any significant recommendations not accepted by management and the consequential risks;
- The effects of any significant changes in the Authority's systems; and
- Any limitations which may have been placed on the scope of the internal audit.

Audit opinion

We have reviewed the Authority's systems in accordance with the 2007/08 Internal Audit Plan as detailed in Appendix A. Our audit opinion for 2007/08 is as follows:

Audit Opinion 2007-08

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Oxford City Council's risk management, control and governance processes. In our opinion, Oxford City Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives, subject to the further development of systems in relation to Risk Management, particularly at the service level, Health and Safety, Parks cash collection and HR related procedures around maintaining evidence of qualifications. Notwithstanding our overall opinion, our work identified a number of opportunities for improving controls and procedures which management has responded to positively.

Acknowledgements

We would like to take this opportunity to thank all those staff throughout the Authority and Members with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

2. Planned coverage and outputs

Review Opinions

In 2007/08 we have issued 17 routine audit reports and 3 relating to value for money. Our work on accounts payable and receivable and main accounting was combined into one report although each area was individually concluded upon. Our review of equality and diversity was deferred to 2008/09 at the request of management and with the approval of the Audit and Governance Committee. We have detailed below a summary of the reports issued together with our conclusion for each system reviewed.

Report No.	Assignment	# of High Priority Rec	Conclusion
1.	Risk management	1	Weak/Satisfactory
2.	Anti-fraud and corruption arrangements	0	Satisfactory
-	Equality and Diversity	N/A	Carried forward to 2008/09
3.	Health and Safety follow-up (including gas servicing)	0	Weak/Satisfactory
4.	Recruitment and Retention follow up	0	Satisfactory
5.	Grants to Voluntary Bodies	1	Weak/Satisfactory
6.	Benefits	0	Good
7.	Local Taxation	0	Good
8.	Payroll	1	Weak/ Satisfactory
9.	Accounts payable	0	Good
9.	Accounts receivable	0	Good
9.	Main accounting	0	Satisfactory
10.	Treasury management	0	Good
11.	IT audits	0	Satisfactory
12.	Leisure – Parks, Events, Ice Rink	2	Weak/Satisfactory
13.	City Works – recycling strategy	0	Good

2. Planned coverage and outputs

#	Assignment	# of High Priority Rec	Conclusion
14.	Housing regeneration – Rose Hill	0	Satisfactory
15.	Homelessness	0	Good
16.	Housing Rents	0	Good
17.	Contingency		
	- Asset Management	0	Satisfactory
	- OREC	N/A	Further details of our follow up and value for money work can be found in sections 4 and 5 respectively.
	- Sport England	N/A	
	- HR/Leisure	N/A	
VFM - Accountancy	N/A		
VFM - Choice based lettings	N/A		
19.	VFM – Other	N/A	Further details of our follow up and value for money work can be found in sections 4 and 5 respectively.
	- SOHA - VFM Planning		
20.	VFM follow up	N/A	

2. Planned coverage and outputs

Summary of Opinions

The opinions which have been assigned to each of the audit reports are categorised as follows:

Good - There is an adequate and effective system of risk management, control and governance to address the risk that objectives are not fully achieved.

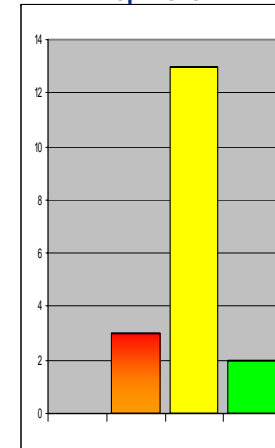
Satisfactory - There is some risk that objectives may not be fully achieved. Slight improvements are required to enhance the adequacy and / or effectiveness of risk management, control and governance.

Weak - There is considerable risk that the system will fail to meet its objectives. Significant improvements are required to improve the adequacy and effectiveness of risk management, control and governance.

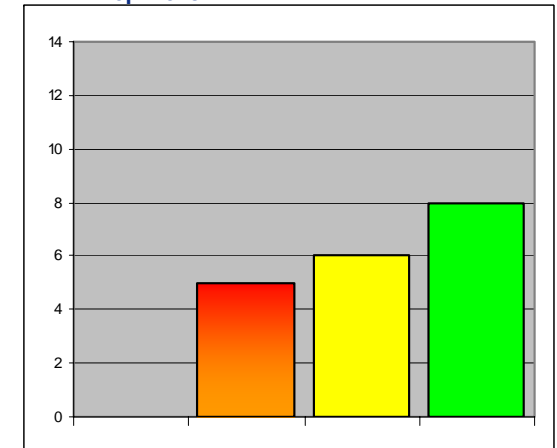
Unacceptable - The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Immediate action is required to improve the adequacy and effectiveness of risk management, control and governance.

A profile of the number of opinions in each category, along with the prior year comparators is detailed opposite. The profile shows that there has been a significant increase in the percentage of reports rated as "good" when compared to 2006/07. However, there has also been an increase in "weak" reports when compared to 2006/07. There has not been any unacceptable ratings since 2005/06.

2006/07 report opinions



2007/08 report opinions



Key:


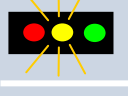
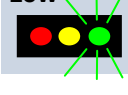
	Unacceptable		Satisfactory
	Weak/Satis		Good

Report opinion comparator

	Unacceptable	Weak / Satisfactory	Satisfactory	Good
2007/08	0	5	6	8
Movement	-	⬆️ 66%	⬆️ 54%	⬆️ 400%
2006/07	0	3	13	2
Movement	⬆️ 100%	⬆️ 25%	⬆️ 8.5%	⬆️ 100%
2005/06	1	4	12	1

3. Implementation of recommendations

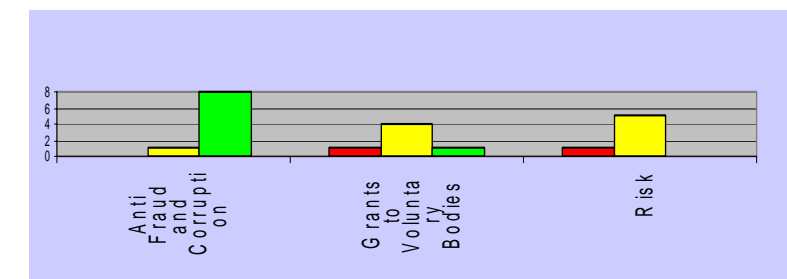
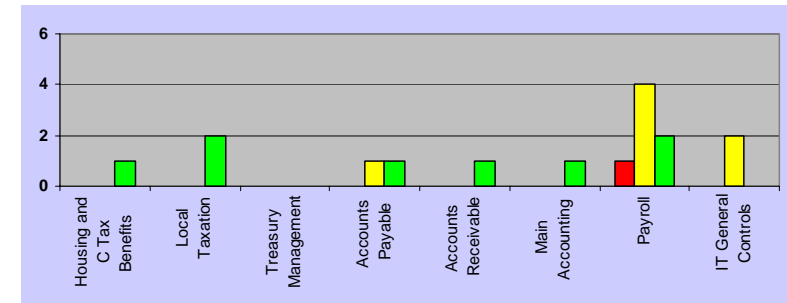
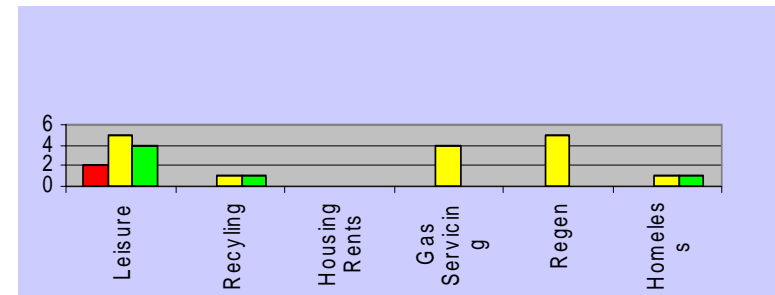
Following each review, we make recommendations to improve the systems. The priority of these can be defined as follows:

Priority	Description
High 	Issues arising referring to important matters that are fundamental and material to the system of internal control. The matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.
Medium 	Issues arising referring mainly to issues that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated, the weakness represents a deficiency in the system.
Low 	Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control.

Management has responded to each of our recommendations. For 2007/08, 97% of recommendations have been accepted by Oxford City Council (2006/07 100%).

We made 61 recommendations in comparison to 100 in 2006/07. The significant change may be explained by the continued improvements within the financial systems, whereby in the prior year 28 recommendations were made compared to 16 in the current year. In addition, we carried out follow up reviews in two areas, which in 2006/07 had a significant number of recommendations. These related to Health and Safety (15 recommendations) and Recruitment (13 recommendations).

Recommendations	High	Medium	Low	Total
2007/08	5	33	23	61
Movement	⬇ 50%	⬇ 47%	⬇ 18 %	⬇ 39%
2006/07	10	62	28	100
Movement	⬇ 23%	⬇ 34%	⬇ 47%	⬇ 33%
2005/06	13	94	53	150



4. Follow Up of Previous Recommendations

During the course of our work, we have followed up 57 previous audit recommendations and noted that 85% (89% in 2006/07) had either been fully or partly implemented. The table below provides further information. Of the 11 recommendations "not implemented", we found that 3 were no longer applicable due to system changes and other compensating controls and 2 were high priority in relation to health and safety.

Audit	Number of recommendations accepted	Fully implemented	Partly implemented	Not implemented	% fully / partly implemented
Accounts Payable	4	4	0	0	100%
Accounts Receivable	3	1	1	1*	100%
Main Accounting	5	1	3	1*	100%
Payroll	4	3	0	1*	100%
Treasury Management	1	1	0	0	100%
Housing and Council Tax Benefits	7	6	1	0	100%
Health and Safety	14	3	6	5	64%
Recruitment and Retention	11	5	3	3	73%
Local Taxation	3	3	0	0	100%
Housing Rents	5	1	4	0	100%
Total	57 *	28	18	11	85%

* 3 recommendations are no longer applicable.

5. Value for Money Reviews

During the course of the year we have carried out some work in relation to value for money. The key findings relating to this work are detailed below:

Value for Money Review	Key Findings
Follow up of Council Tax	We identified that the Authority had fully taken on board the recommendations made in our report and that there has been a substantial improvement in Council Tax collection rates.
Follow up of Leisure Management	We identified that the Authority had made little or no progress in rationalising the level of provision or determining an alternative approach to service delivery. However, we recognise that the Council was about to consider a proposal to embark on a major procurement project for leisure management.
Implementation of Choice Based Lettings	We looked at the implementation of Choice Based Lettings and concluded that it was a very well managed project which had successfully involved partner organisations.
Soha contract letting	This work is still in progress. Initial findings were that the Council's bid was assessed as better quality but significantly higher price than the successful bidder.
Accountancy	This work is delayed because of pressures on the Authority's Accountancy staff with year-end.
Use of Resources	This work is in progress.
VFM planning	This work is in progress.

6. Performance of internal audit

Performance indicators

We set out below the performance indicators agreed in the audit strategy. We have achieved our targets for issuing draft terms of reference and finalising reports after receipt of management responses. Our performance for issuing draft reports dipped slightly when compared to 2006/07 and requires improvement likewise the timeliness with which management responses are received.

#	Performance Area	Performance (Target)	Achieved
Assignment Delivery			
1.	Issue Terms of Reference	•15 days before start on site (100%)	(18/18) 100% (06/07 = 89%)
2.	Issue Draft Report	•Within 15 days of debrief (100%)	[13/16] 81% (06/07 = 83%)
3.	Management Response	•Within 10 days of draft report (100%)	[5/16] 31% (06/07 56%)
4.	Issue Final Report	•Within 10 days of management responses (100%)	(16/16) 100% (06/07 = 100%)

Compliance with Standards

Based upon our ongoing assignment and client review processes, together with the results of any Quality Assurance inspections, we believe that our work has complied with the CIPFA Standards.

Liaison with external audit

During the year, we have met with the Audit Commission to discuss our respective plans and findings. We have also used these meetings to share knowledge in order to ensure a collaborative approach to our work. Our files have been reviewed by the Audit Commission to assess the extent to which they can rely on our work, particularly in relation to the financial systems.

6. Performance of internal audit

Quality control

KPMG's aim is to provide a consistently high standard of service. This is achieved through the following internal processes:

- Regular review of progress against the plan with management and the Audit and Governance Committee to monitor our performance;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol;
- The use of qualified, appropriately trained and experienced staff;
- Monitoring of performance against targets;
- Review of all audit files and reports by an Audit Manager;
- Review of all audit reports by the Head of Internal Audit and/or Partner, where appropriate; and
- Periodic meeting with senior management at the Authority to obtain feedback on our service and to keep abreast of emerging issues.

Staffing

We recognise that Oxford City Council wishes to see its internal audit service make a positive contribution and therefore requires a high level of experienced and qualified staff to bring appropriate levels of expertise. We have highlighted below details of the core audit team who have been working with you:

Sav DellaRocca, CPFA, Audit Director

During the year, Sav took over responsibility for our service to the Authority from Will Carr. He has attended the Audit and Governance Committee and held meetings with senior management in order to develop his understanding of the Authority as well as ensure that we continue to provide a high quality internal audit service. Sav currently oversees the management of Internal Audit services to a number of public sector organisations.

Donald Sadler, ACMA MAAT, Head of Internal Audit

Donald is the Head of Internal Audit to Oxford City Council ensuring that the internal audit service meets your needs. He is responsible for ensuring that the internal audit plan is delivered in a timely manner and attends the Audit and Governance Committee meetings to present our reports.

Jez Leaper, Senior Manager (VFM)

Jez is a Senior Manager in our Audit Based Advisory Services team. Before joining KPMG LLP, Jez worked for the Audit Commission and has been involved in undertaking value for money reviews for a significant number of years. He has overseen the value for money work which featured in the internal audit plan for 2007/08.

Appendix A – Performance against the 2007/08 Plan

Audit Area	Planned Days	Days Utilised	Status
AUTHORITY WIDE			
Risk management	20	20	Completed
Anti-fraud and corruption arrangements	12	9	Completed
Equality and Diversity	20	0	Carried forward to 2008/09
Health and Safety follow-up (including gas servicing)	12	12	Completed
Recruitment and Retention follow up	8	8	Completed
Grants to Voluntary Bodies	8	8	Completed
Sub Total	80	57	(23)
FINANCIAL AND CORPORATE SERVICES			
Benefits	20	20	Completed
Local Taxation	10	10	Completed
Payroll	10	10	Completed
Accounts payable	10	10	Completed
Accounts receivable	5	5	Completed
Main accounting	5	5	Completed
Treasury management	5	5	Completed
IT general controls	20	20	Completed
Sub Total	85	85	-

Appendix A – Performance against the 2007/08 Plan (Continued)

Audit Area	Planned Days	Days Utilised	Status
PHYSICAL ENVIRONMENT			
Leisure – Parks, Ice Rink and Events	14	14	Completed
City Works - Recycling	10	10	Completed
Sub-total	24	24	-
HOUSING			
Housing regeneration	12	12	Completed
Homelessness	12	12	Completed
Housing rents	12	12	Completed
Sub-total	36	36	-
CONTINGENCY			
OREC	25	5	Completed
Sport England		6	Completed
Asset Management		4	Completed
HR/Leisure review		7	Completed
Sub-total	25	22	(3)

Appendix A – Performance against the 2007/08 Plan (Continued)

Audit Area	Planned Days	Days utilised/committed	Status
VALUE FOR MONEY			
Accountancy VFM	20	20	Delayed
Use of Resources	10	10	In progress
VFM planning	15	8	In progress (7 days c/f to 2008/09)
Follow-up Council Tax and Leisure	5	6	Completed
Choice based lettings	5	3	Completed
Soha contract	-	3	In progress
Contingency	5	0	-
Sub-total	50	50	-
Follow Up	15	15	
Management	35	35	
Overall Total	350	324	92.6% completion

Appendix A – Performance against the 2007/08 Plan (Continued)

Actual days against planned days

The 2007-08 plan was approved by the Audit and Governance Committee and Members have been provided with progress reports during the year which include information on any audits that have been delayed or deferred. We have completed/utilised 324 days against a planned total of 350. The difference of 26 days is explained below:

Assignment	Variance	Details
Anti-fraud and corruption	-3	We completed this review using fewer days than planned.
Equality and Diversity	-20	The Authority is currently developing its approach to Equality and Diversity and is to carrying out a self assessment against good practice guidance. A detailed review of the new process will be carried out in 2008/09.
Contingency	-3	We only used 22 out of 25 days set aside for contingency.
Total	-26	

As a result of the above, the Authority has saved £13,520 during 2007/08.