



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Internal Audit – Annual Report 2008-09

Oxford City Council
15 April 2009

AUDIT

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- 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 2008 to 31 March 2009. 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, Chief Executive 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 2008/9 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 2009 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 317, a reduction of 33 days. Further details in relation to the difference in days can be found at Appendix A.

Performance of the internal audit service

The internal audit service has complied with CIPFA Standards throughout the year. We have completed the internal audit plan and improved our performance with respect to issuing draft reports within agreed timescales.

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

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 2008/09 Internal Audit Plan as detailed in Appendix A. Our audit opinion for 2008/09 is as follows:

Audit Opinion 2008-09

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 for the most part adequate and effective risk management, control and governance processes to manage the achievement of its overall objectives. However, in some service areas arrangements are weak, health and safety/taxi licensing for example.

We noted during the year a large number of audit areas which have been graded as weak. However, this is reflective of the Authority's approach to risk based internal audit and its maturity of approach in planning internal audit resource to review areas which are known to the Authority to have poor internal controls. As a consequence, the Authority utilised internal audit as a tool to not only aid in improving controls but to benchmark areas under review against good practice. Core financial systems (main accounting, accounts payable, accounts receivable, local taxation, benefits) were graded as good in 2008/09 reflecting the relatively robust controls management has put in place.

During the year there has been considerable improvements in risk management arrangements with corporate risks reported regularly to the Audit and Governance Committee. In addition, the arrangements for risk management have progressed with the adoption of service area risk registers and with formal consideration of risk within the Authority's revised project and procurement methodology.

Improvements have also occurred in the overall governance arrangements in terms of establishment of the Performance and Strategy Boards and with the formal reporting of instances of fraud. In addition, the Audit and Governance Committee actively seeks updated assurance on areas which have been graded as weak previously, and within the 2008-09 year has received updated reports on Licensing, Payroll and Health and Safety. Our internal audit work on governance was graded as weak but limited to a review of the Authority's annual governance statement and documented assurance framework, and therefore the grade is not a reflection of the overall governance arrangements in place.

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 2008/09 we have issued 19 report opinions on routine internal audits and 4 reports relating to value for money. Our work on the main accounting system, accounts payable and receivable was combined into one report although each area was individually rated. 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.	Corporate Governance	1	Weak/Satisfactory
2.	Risk Management	0	No report expected
3.	Equality and Diversity	0	Satisfactory
4.	Health and Safety follow-up	0	Weak
5.	Single Status	0	No report expected
6.	Continuity/Disaster Recovery	3	Weak
7.	Benefits	0	Good
8.	Local Taxation	0	Good
9.	Payroll	3	Weak/ Satisfactory
10.	Accounts Payable	0	Good
11.	Accounts Receivable	0	Good
12.	Main Accounting System	0	Good
13.	Treasury management	0	Good
14.	Fixed Assets	0	Satisfactory
15.	Information and Data Security	2	Weak
16.	Building Control / Planning / Inspection / Enforcement	0	Satisfactory

2. Planned coverage and outputs (Continued)

#	Assignment	# of High Priority Rec	Conclusion
17.	Taxi Licensing	3	Weak
18.	Local Financial Systems	1	Weak
19.	Responsive Repairs	0	Satisfactory
20.	Leaseholder recharging	0	Satisfactory
21.	Car Parking	1	Weak
22.	VFM – Follow up	N/A	N/A
23.	VFM – Leisure Market Testing		
24.	VFM – Mapping		
25.	VFM – Studies		
26.	Home Choice Deposits	1	Weak

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.

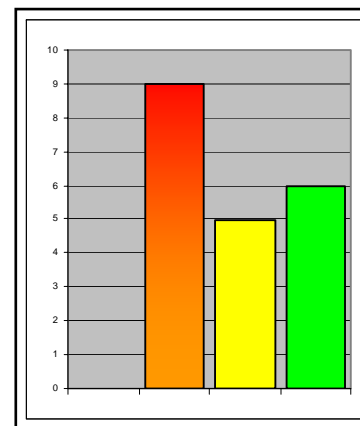
A profile of the number of opinions in each category, along with the prior year comparators is detailed opposite.

The profile shows that there has been an increase in the percentage of reports rated as "weak" when compared to 2007/08. There has not been any unacceptable ratings since 2005/06.

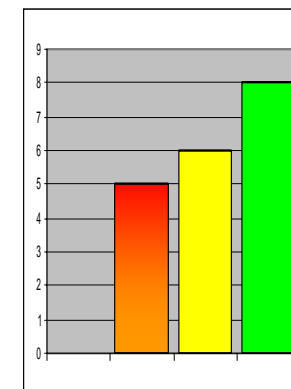
The increase in weak reports has occurred due to the Authority requesting that we examine areas which had not been previously reviewed and were known to be inherently weak and require significant improvement.

Core financial systems have remained good as per prior years.

2008/09 report opinions



2007/08 report opinions



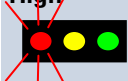
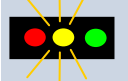
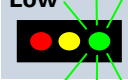
Key:			
	Unacceptable		Satisfactory
	Weak/Satis		Good

Report opinion comparator

	Unacceptable	Weak and Weak /Satisfactory	Satisfactory	Good
2008/09	0	9	5	6
Movement	-	⬆️ 80%	⬆️ 16%	⬆️ 25%
2007/08	0	5	6	8
Movement	-	⬆️ 66%	⬆️ 54%	⬆️ 400%
2006/07	0	3	13	2

3. Implementation of recommendations

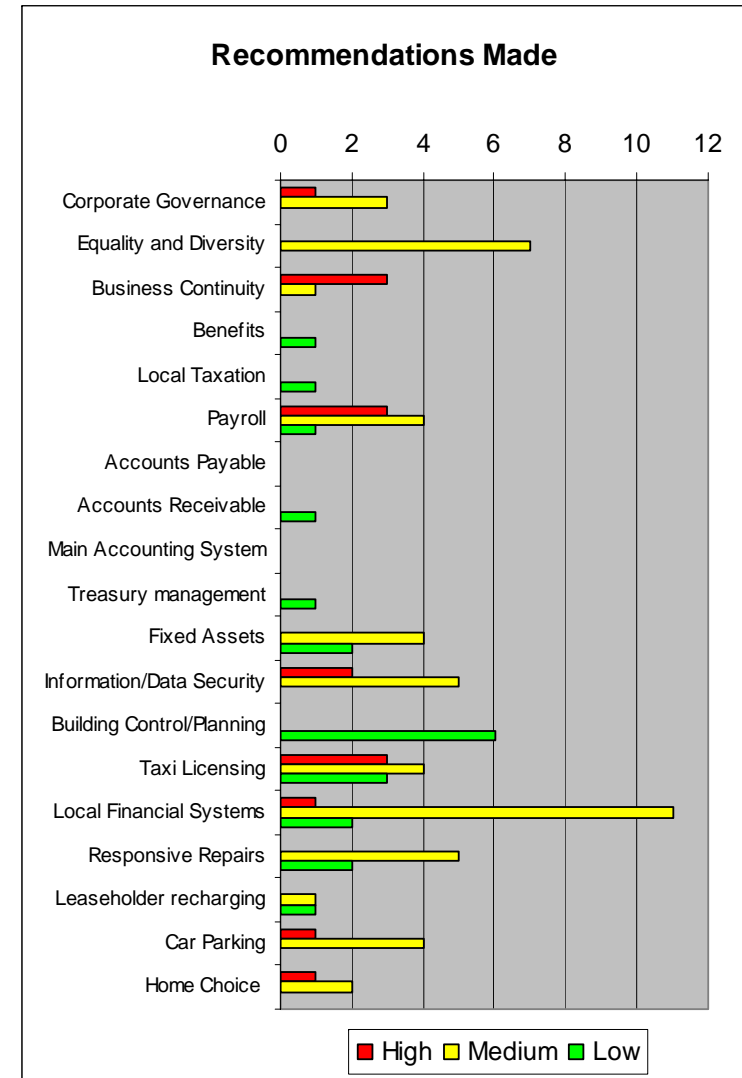
Following each review, we make recommendations to improve the systems. The priority of these can be defined as follows:

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 2008/09, 100% of recommendations have been accepted (2007/08 97%).

For the 19 areas reported upon, we have made 87 recommendations in comparison to 61 in 2007/08. There has been an increase the number of recommendations made in respect of operational areas which have received weak report ratings.

Recommendations	High	Medium	Low	Total
2008/09	15	51	21	87
Movement	⬆ 300%	54%	⬇ 9%	⬆ 42%
2007/08	5	33	23	61
Movement	⬇ 50%	⬇ 47%	⬇ 18%	⬇ 39%
2006/07	10	62	28	100



4. Follow Up of Previous Recommendations

During the course of our work, we have followed up 35 previous audit recommendations and noted that 37% had been fully implemented increasing to 71% for fully/partially implemented (85% in 2007/08). The table below provides further information. Of those recommendations not fully implemented none were rated as high. Whilst recommendations remain either partially or not implemented, the risk identified remain and the Authority exposed.

Audit	Number of recommendations accepted	Fully implemented	Partly implemented	Not implemented	% fully implemented
Health and Safety	14	3	8	3	21%
Payroll	7	3	1	3	42%
Accounts Payable	2	2	0	0	100%
Accounts Receivable	1	1	0	0	100%
Main Accounting System	1	1	0	0	100%
Car Parking	10	3	3	4	30%
Total	35	13 (37%)	12 (34%)	10 (29%)	37%

5. Performance of internal audit

Performance indicators

We set out below the performance indicators agreed in the audit strategy.

#	Performance Area	Performance (Target)	Achieved
Assignment Delivery			
1.	Issue Terms of Reference	•15 days before start on site (100%)	(17/17) 100% (07/08 = 100%)
2.	Issue Draft Report	•Within 15 days of debrief (100%)	[17/19] 89% (07/08 = 81%)
3.	Management Response	•Within 15 days of draft report (100%)	[14/19] 73% (07/08 = 31%)
4.	Issue Final Report	•Within 10 days of management responses (100%)	(18/19) 94% (07/08 = 100%)

Compliance with Standards

Based upon our ongoing assignment and client review processes, 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.

5. 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 wished to see its internal audit service make a positive contribution and therefore required 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 worked with you during 2008/09.

Sav Della Rocca, CPFA, Audit Director

During the year, Sav has attended the Audit and Governance Committee and held meetings with senior management to ensure that we continue to provide a high quality internal audit service.

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.

Jez Leaper, Senior Manager (VFM)

Jez is a Senior Manager in our Audit Based Advisory Services team. He has overseen all of our value for money work.

Annabel Ellin, MAAT DMS, Audit Manager

Annabel has overseen the delivery of the core internal audit plan and has attended the Audit and Governance Committee. Annabel has also supported the Authority's work on risk management.

Appendix A – Performance against the 2008/09 Plan

Audit Area	Planned Days	Days Utilised	Status
AUTHORITY WIDE			
Corporate Governance	10	10	Completed
Risk management	15	15	Completed
Equality and Diversity	15	15	Completed
Health and Safety follow-up	5	5	Completed
Single status	5	0	Not Completed
Business Continuity/Disaster Recovery	10	10	Completed
Sub Total	60	55	
FINANCIAL AND CORPORATE SERVICES			
Benefits	15	15	Completed
Local Taxation	10	10	Completed
Payroll	10	10	Completed
Accounts payable	5	5	Completed
Accounts receivable	5	5	Completed
Main accounting	5	5	Completed
Treasury management	5	5	Completed
Fixed Assets	10	10	Completed
Sub Total	65	65	

Appendix A – Performance against the 2008/09 Plan (Continued)

Audit Area	Planned Days	Days Utilised	Status
BUSINESS SYSTEMS			
Data Security	10	10	Completed
Sub-total	10	10	
CITY REGENERATION			
Building Control / Planning / Inspection / Enforcement	20	20	Completed
Taxi Licensing	15	15	Completed
Sub-total	35	35	
CITY SERVICES			
Local Financial Systems	15	15	Completed
Housing Repairs	20	20	Completed
Leaseholder recharging	10	10	Completed
Car Parking	10	10	Completed
Sub-total	55	55	
CONTINGENCY			
Contingency	25	25	Completed
Sub-total	25	25	

Appendix A – Performance against the 2008/09 Plan (Continued)

Audit Area	Planned Days	Days utilised/committed	Status
VALUE FOR MONEY			
VFM	50	22	Completed
Sub-total	50	22	
Follow Up	15	15	
Management	35	35	
Overall Total	350	317	90% completion

Appendix A – Performance against the 2008/09 Plan (Continued)

Actual days against planned days

The 2008-09 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 318 days against a planned total of 350. The difference of 33 days is explained below:

Assignment	Variance	Details
Single Status Review	-5	Due to timing of implementation of Single Status by the Authority the review had at the time of reporting not taken place.
VFM	-28	Due to the call off nature of the arrangements all of the VFM days have not been utilised.
Total	-33	