

# Oxford City Council

## Internal Audit Annual Report

### Draft

#### Distribution List

s151 Officer  
Chief Executive  
Executive Directors  
Audit and Governance Committee  
Leader of the Council

# Contents

<b>Section</b>	<b>Page</b>
1 Background and scope .....	3
2 Our annual opinion .....	4
3 Internal audit work conducted .....	6
4 Limitations and responsibilities .....	10
Appendix A Summary of internal audit performance.....	12
Appendix B Annual assurance levels and risk ratings .....	14

# 1 Background and scope

## **Background to this report**

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s Annual Governance Statement (AGS). As such, the purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Audit and Governance Committee (A&G) and presented in our revised annual internal audit plan. As such, our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2009 to 31 March 2010

## **Acknowledgements**

We are grateful for the assistance that was provided to us by Oxford City Council staff in the course of our work.

# 2 Our annual opinion

## Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Council's:

- risk management;
- control; and
- governance processes.

Collectively we refer to all of these activities in this report as "**the system of internal control**".

Our opinion is based on the audit work performed as set out in our revised 2009/10 internal audit plan agreed by A&G on 26 January 2010. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

## Annual opinion on internal controls

Our initial internal audit plan was approved by the Audit and Governance Committee in June 2009. Following the qualification of the Council's 2008/09 accounts and our initial internal audit work; we were requested by the Interim Executive Finance Director to provide a high level overview of the Council's internal control framework. The results of this exercise were communicated to the Audit and Governance Committee on 24<sup>th</sup> November 2009 in the form of a heat map and were used to re-evaluate the number and mix of audit days in our original internal audit plan. The heat map highlighted a number of areas where it was considered the controls in place at that time were weak and in agreement with management, audit resource was therefore focussed in those areas.

We have worked closely with the Council during the year in order to provide support and advice on the internal control framework, particularly around the core financial systems and we have seen some real improvements in key areas throughout the year.

We have completed the program of internal audit work for the year ended 31 March 2010 (taking into account agreed amendments to the plan). In respect of the majority of systems audited, on the basis of audit work carried out during the period under review, we have concluded that established procedures are adequate to meet management's control objectives for each system audited subject to our recommendations being satisfactorily implemented. On the basis of our selective testing of key controls,

we conclude that the controls examined were generally operating satisfactorily during the period under review, with some exceptions that have been reported to management in our detailed reports. We have noted excellent progress in some areas, notably performance management, and have commented favourably on the way that services are being developed.

However, as the heat map exercise indicated, at the time of that exercise, there were some weak financial systems where controls were not sufficiently embedded for us to be confident about their effective operation. As these controls impact on the core systems within the Council, this represented a significant pervasive weakness at the time of the heat map exercise.

The Council responded to the findings of this exercise positively and additional resources were committed and remedial action taken to address the control issues identified. Follow-up work conducted by internal audit in some of the key areas indicated that controls had improved prior to the year end. Further details are provided in Section 3.

In addition, we identified a number of high risk issues that, whilst isolated to specific systems and processes have a significant impact on the control framework for a number of the Council's material systems. These are detailed in Section 3 of this report along with details of any follow-up assessment where relevant.

- At the time of this report, our reports on Budgetary Control, Business Continuity, ICT Contract and Creditors have not been finalised. We are currently awaiting management responses to these reports.

We believe that the high risk issues detailed in Section 3 are **Significant Internal Control Issues** and should be considered for inclusion in your Annual Governance Statement.

On the basis of our conclusions we are able to give **LIMITED** assurance on the design, adequacy and effectiveness of the system of internal control at the Council. We provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control and there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance is therefore limited to these elements of the system of internal control. (See Appendix B for definitions)

In addition to the work in the audit plan we have provided additional support to both officers and members in respect of key issues facing the Council and the Local Government Arena (most notably around the Councils accounts closedown process). We look forward to continuing to support you in these areas during 2010/11.

# 3 Internal audit work conducted

## Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The Revised Annual Internal Audit plan was agreed with the Accounts Audit and Risk Committee on in January 2010.

## Summary of key findings

We set out below a summary of the key findings (those rated as high risk in the audit report. We have also detailed the results of our follow-up work in relation to the key findings.

Audit review	High risk issue	Follow-up findings	Status at follow-up
General Ledger	Journal procedures were not being complied with and there is no process in place for authorising journals.	Validated at follow up that process had been drafted but not yet implemented.	Partially implemented – process now needs to be implemented.
General Ledger	No reconciliations between Fixed Asset Register and General Ledger.	Performed as part of trial close down and year end. Much improved process.	Partially implemented – need to now undertake reconciliations on a regular basis going forward.
General Ledger	The Council does not perform a trial close down before the year end process.	Trial close down now performed.	Implemented
General Ledger	Suspense accounts have not been cleared during the year.	Reviewed position at trial close down – not cleared.	Outstanding
Debtors	Limited segregation of duties in place around debt raising and cash receipting at City Works.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.

Debtors	The City Works system interfaces with the General Ledger on a periodic basis to ensure that all invoices are raised on the General Ledger. It was brought to audits attention that this process had failed during the year and was left unnoticed for a period of 5 months.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.
Collection Fund	The Council has not written off any bad debt in relation to Council Tax/NNDR during the year.	Officers agreed to take an update report to Audit and Governance Committee detailing action taken. This report has not yet been presented.	Not known – IA will validate as part of 10/11 plan.
Performance Management	NI196  In 50% of inspections tested, no supporting documentation was held.	Not followed up	Not known – IA will validate as part of 10/11 plan.
Performance Management	BV008  Issues were identified in relation to the data on invoice payments.	Not followed up	Not known – IA will validate as part of 10/11 plan.
City Works – Fleet Plan	It was possible for orders to be created outside of the sequential ordering process in Fleet Plan.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.
City Works – Fleet Plan	There are no controls in place in Fleet Plan to prevent or detect duplicate orders. Orders can be raised on a number of modules within the system and the system does not highlight any possible duplicate entries.	The Council deployed additional resource to investigate this issue. Follow-up work identified no issues arising.	Implemented
City Works – Fleet Plan	It is not possible to trace user activity on the Fleet Plan system.	Not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.

City Works – Fleet Plan	Issues were identified in relation to the processing of invoices in Fleet Plan.	Follow-up work identified no issues arising.	Implemented
City Works – Trade Waste	Documents were not being retained to support the award of contracts.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.
City Works – Trade Waste	Issues were identified in relation to the raising of invoices for trade waste.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.
City Works – Trade Waste	Limited documentation is retained to evidence the recovery process for Trade Waste debt. A complete audit trail was not available for any of the cases tested by internal audit.	Management assurance that issue is rectified – not included in IA follow-up agreed with management.	Not known – IA will validate as part of 10/11 plan.
Fixed Assets	Whilst reconciliations have been performed as part of the trial close down process, the Council has not performed periodic reconciliations of the Fixed Asset register to supporting systems in year.	Management assurance that issue is rectified.	The systems were reconciled as at 31st March 2010. IA will validate the regular reconciliation process as part of the 10/11 plan.

## The Council's response

The Council recognises the findings outlined above and has put in place action plans to address the findings. Consequently, they have been identified within the Council's Annual Governance Statement. It should be noted that a number of the audit findings were already in workplans i.e. a trial closedown was planned as were reconciliations of fixed assets.

A number of the findings around Debtors and City Works overlap. In 2009, the Council became concerned about processes within City Works and officers worked closely with Internal Audit to review the area. In April 2010, the Audit & Governance Committee received an action plan showing how the management team were addressing the issues raised in those audits. As part of year end processes, reconciliations of the key City Works systems to the Council's general ledger have taken place to give assurance that the system feeds are working correctly. The Council is therefore confident that the limited assurance represented the state of affairs at the time of the audits and is not representative of the current situation.

A key action in the new financial year will be to monitor the turn around times on audits to ensure that the audit reports, officers' responses and actions are concluded on a timely basis. For areas with



recommendations classified as either 'High' or 'Critical' reviews will also be scheduled within specified periods. Performance against these performance indicators will be reported to the Audit & Governance Committee as part of their regular monitoring reports.

### **Results of follow-up work**

We have conducted follow-up work throughout the year as part of our assignment reviews. Progress on follow up of audit recommendations is being reported on a regular basis to both Audit and Governance and Performance Board. We are pleased to note the high number of recommendations that have been certified as complete in year. We will follow up these declarations as part of our 2010/11 Internal Audit Plan.

In addition we undertook some specific work related to the year end accounts process which included following up on some of the key issues identified in year. The results of this follow-up work are included in the table above.

# 4 Limitations and responsibilities

## Limitations inherent to the internal auditor's work

### Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

The assessment of controls relating to Oxford City Council is as at 31 March 2010. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

## Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Accounts Audit and Risk Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

## **Limitations in our scope**

The scope of our work has not been limited in any way during the course of the year.

## **Access to this report and responsibility to third parties**

This report has been prepared solely for Oxford City Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

# Appendix A Summary of internal audit performance

## 1. Fundamental assurance

OP1.1 General Ledger/ Fin. Accounting		5
General Ledger follow up		7
OP1.2 Debtors		10
Debtors follow up		0
OP1.3 Creditor payments		10
OP1.4 Payroll		10
OP1.5 Budgetary Cont./ Fin. accounting		9
OP1.6 Council Tax	140 days in total	5
OP1.7 National Non Domestic Rates		5
OP1.9 Cashiers		5
OP1.10 Treasury Management		5
OP1.11 Housing Benefits		10
OP1.12 Fixed Assets		10
OP1.13 VAT		5
OP1.14 Car Parking		5
OP 1.15 Housing Rents		10
OP 1.16 Risk Management		3
OP 1.17 Governance		5
City Works		10

## 2. Operational system reviews

### – risk based assurance

OP 2.2 Leisure Centre Contract	10	10
OP 2.3 Health and Safety	5	5
OP 2.4 ICT Audits	20	20
OP 2.6 Sustainability	15	15
OP 2.8 Procurement	5	5
OP 2.10 Business Continuity Planning	5	5
OP 2.11 Anti Fraud and Corruption	5	5

Planned activity	Planned days	Actual days	Status
<b>3. Strategic Reviews</b>			
OP 3.2 Performance Management	25	25	Final Report

## 4. Other





OP 4.1 General follow up	10	10
OP 4.2 Audit Management	45	45
<b>Total</b>	<b>285</b>	<b>280</b>

# Appendix B Annual assurance levels and risk ratings

## Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

**Definition of risk ratings within our individual audit assignments**

-  Critical Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to:  
the efficient and effective use of resources  
the safeguarding of assets  
the preparation of reliable financial and operational information  
compliance with laws and regulations.
-  High Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.  
This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
-  Medium Control weakness that has a low impact on the achievement of the key system, function or process objectives; or  
This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
-  Low Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

*In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

*©2010 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.*