# Agenda



# Audit and Governance Committee

Date: Thursday 23 April 2015

Time: **6.00 pm** 

Place: St Aldate's Room, Town Hall

For any further information please contact:

Jennifer Thompson, Committee and Members Services

Officer

Telephone: 01865 252275

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#### **Audit and Governance Committee**

#### **Membership**

Chair Councillor James Fry

Vice-Chair Councillor Jean Fooks

Members Councillor Van Coulter

Councillor Roy Darke Councillor Mike Rowley Councillor Scott Seamons Councillor David Thomas

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#### **AGENDA**

		Pages
1	APOLOGIES FOR ABSENCE	
	The quorum for this Committee is three Members and substitutes are allowed.	
2	DECLARATIONS OF INTEREST	
3	AUDIT PLAN FOR YEAR END 31 MARCH 2015	7 - 28
	Report of the external auditor.	
	<b>Purpose:</b> this sets out how the Council's external auditors, Ernst& Young, intend to carry out their responsibilities and summarises their assessment of key risks in respect of the audit for the year ending 31 March 2015.	
	The Committee is asked to discuss the report.	
4	ANNUAL FEE LETTER 2015-16	29 - 32
	Report of the external auditor.	
	<b>Purpose:</b> this confirms the audit and certification work that the Council's external auditors, Ernst& Young propose to undertake for the 2015-16 financial year at Oxford City Council	
	The Committee is asked to note the report.	
5	LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING	33 - 44
	Briefing paper from the external auditor.	
6	INTERNAL AUDIT RISK ASSESSMENT & PLAN 2015-16	45 - 68
	Report of the Head of Finance.	
	There will also be a verbal presentation by PWC on the Annual Internal Audit Report.	
	<b>Purpose:</b> to approve the audit plan for 2015-16 and outline the process for procurement the service for the provision of internal audit services.	
	<ul><li>Recommendations:</li><li>1. That the Audit and Governance Committee approve the Audit Plan for 2015-16 as shown in Appendix A.</li></ul>	

	That members note the process for the procurement of the internal audit service	
7	INTERNAL AUDIT REPORT - HOUSING RENTS	69 - 86
	Report of the internal auditor.	
	<b>Purpose:</b> the report summarises the evaluation of controls and processes in place for housing rents.	
	The Committee is asked to discuss and note the report.	
8	INTERNAL AUDIT REPORT - SPORTS PITCH BOOKING	87 - 104
	Report of the internal auditor.	
	<b>Purpose:</b> the report summarises the review of the controls and processes in place relating to Sports Pitch and Facilities Booking.	
	The Committee is asked to discuss and note the report.	
9	INTERNAL AUDIT REPORT - ROSEHILL COMMUNITY CENTRE	105 - 130
	Report of the Head of Finance Report of the internal auditor	
	<b>Purpose</b> : To present to Audit and Governance members a 'lessons learned' report undertaken by the Council's auditors PWC on the capital project for the construction of a new Community Centre at Rosehill.	
	Recommendation: That the Audit and Governance Committee note the PWC report together with the management response	
10	PROGRESS ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS	131 - 138
	Report of the Head of Finance.	
	<b>Purpose:</b> report progress on the implementation of internal and external audit recommendations.	
	<b>Recommendation:</b> The Audit and Governance Committee is asked to note progress with the recommendations listed in Appendix A.	
11	INVESTIGATION TEAM UPDATE REPORT	139 - 148
	Report of the Head of Finance	
	Purpose of report: to report to Members the activity and performance of the Investigation Team for the period 1 April 2014 to 31 March 2015, and the	

plans for the development of the Investigation Service going forward.

The Committee is asked to note the report.

#### 12 MINUTES OF THE PREVIOUS MEETING

149 - 152

Minutes of the meeting held on 26 February 2015.

#### 13 DATES AND TIMES OF MEETINGS

The Committee will meet at 6.00pm in the Town Hall on the following dates:

Monday 29 June 2015 Tuesday 15 September (note proposed change of date) Wednesday 16 December (note proposed change of date).

#### **DECLARING INTERESTS**

#### **General duty**

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

#### What is a disclosable pecuniary interest?

Disclosable pecuniary interests relate to your\* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licences for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

#### **Declaring an interest**

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest.

If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

#### Members' Code of Conduct and public perception

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". What this means is that the matter of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

\*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those of the member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

# **Oxford City Council**

Year ending 31 March 2015

Audit Plan

23 April 2015

Ernst & Young LLP







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Audit and Governance Committee Oxford City Council Town Hall St Aldate's Oxford OX1 1BX 23 April 2015

**Dear Committee Members** 

#### **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Auditand Governance Committee with a basis to review our proposed audit approach and scope for the 2014-15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 23 April 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mick West For and behalf of Ernst & Young LLP Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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#### Overview

#### Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Oxford City Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended
- ► A conclusion on the Council's arrangements to secure economy, efficiency and effectiveness the value for money conclusion

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements
- Developments in financial reporting and auditing standards
- ► The quality of systems and processes
- Changes in the business and regulatory environment
- ► Management's views on all of the above

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We have identified one significant risk to the opinion on the financial statements. This is the risk of management override. We must consider this as part of our work because of the nature of local authority finances and the ever-increasing pressure on management to achieve financial targets.

We are also aware of the official start of work on the Westgate Re-Development in February 2015. This major project will have a significant impact on the financial statements in 2014-15 and beyond. We will review the accounting treatment associated with this major project in detail as part of our annual audit.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section six.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our Annual Results Report scheduled for delivery in September 2015.

The plan at section 5 also outlines our planned work on the certification of the housing benefits subsidy claim.

#### Our process and strategy

#### Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We assess the controls in operation in each process affecting the financial statements and consider whether we will rely on them. We currently expect to rely on controls over some of the Council's systems where it is more efficient to do so.

To the fullest extent permissible by auditing standards, we will rely on the work of internal audit. Internal audit maintain documentation of key processes, document and evaluate changes, and test management controls. Where they have tested a control that we were planning to test, we will assess their testing through re-performance of a sample, and rely on it where possible.

The key members of the audit team are Mick West (Director), Alan Witty (Senior Manager) and Adrian Balmer (Assistant Manager)

There has been no change to the scope of our audit compared to previous audits.

#### Arrangements for securing economy, efficiency and effectiveness - value for money conclusion

Our approach to the value for money conclusion for 2014-15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- Securing financial resilience
- ▶ Challenging how the Councilsecures economy, efficiency and effectiveness

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section 4 of this Audit Plan.

#### 2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014-15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014-15 audit.

#### 3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussions with those charged with governance and officers.

We assess the impact on our audit approach and set out the key areas of focus for our audit of the financial statements. A significant risk is an identified assessed risk of material misstatement that, in an auditor's judgement, requires special audit consideration. We have identified one significant risk and three further areas of audit focus.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)

#### Our audit approach

#### Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Reviewing accounting estimates for evidence of management bias
- Evaluating the business rationale for significant unusual transactions

Other financial statement risks

#### Accounting for Westgate re-development

Formal work started on the Westgate re-development project in February 2015. As the Council is a major partner in the project the re-development will have a significant impact across a number of key areas: property; leases and car parking income.

Our approach will focus on:

- Reviewing the Council's approach to accounting for the Westgate re-development
- Testing a sample of the assets and leases affected to ensure that these have been correctly accounted for
- Reviewing contracts to ensure that the accounting is supported by legally binding contracts

#### Accounting for internal recharges

As part of the 2013-14 audit an adjustment was made to correct the accounting in respect of how internal recharges were being recognised in the Income and Expenditure Account. Although the adjustments had no impact on net expenditure, gross expenditure and gross income were reduced by £25m.

Our approach will focus on:

- Reviewing the approach to accounting for internal recharges in the Income and Expenditure Account
- Reconciling the Budget Book back to the gross expenditure and gross income in the Income and Expenditure Account and requiring explanations where the differences are significant

#### Accounting for revaluations and impairments

As part of the 2013-14 audit adjustments were made to correct prior year and in-year accounting forfixed asset revaluations and impairments within the Income and Expenditure Account and the Revaluation Reserve. The overall net impactwas approximately £42m. The adjustments were made and agreed by management in 2013-14.

Our approach will focus on:

 Reviewing the approach to accounting for fixed asset revaluations and impairments

#### Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risks.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages
- ▶ Enquiry of management about risks of fraud and the controls to address those risks
- Understanding the oversight given by those charged with governance of management's processes over fraud
- Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address any identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks

We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.

#### 4. Economy, efficiency and effectiveness

Our approach to the value for money conclusion for 2014-15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place for securing:

- ► Financial resilience
- ► Economy, efficiency and effectiveness in the use of resources

The Audit Commission's 2014/15 auditor guidance on the conclusion on the arrangements to secure vfmrequires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure value for money.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our value for money conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local value for money work.

At this stage we have not identified any specific significant risks in respect of value for money. We acknowledge the Council operates in a context of increasing financial pressure and we will keep our risk assessment under review throughout our audit and communicate to the Audit and Governance Committee any additional local risk-based work we may need to undertake.

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### 5. Certification work for housing benefits

Certification work involves executing prescribed tests which are designed to give reasonable assurance that the Council's housing benefits claim is fairly stated and in accordance with specified terms and conditions.

Certification work is not an audit.

The work necessary is determined by the Department of Works and Pensions.

Based on previous experience we expect to carry out extended testing, known as 40+ testing, for some areas of the claim.

Where possible we integrate our benefits certification work with our opinion and other work. We also aim to rely on the work of internal audit and benefits staff where possible.

We will report to the Audit and Governance Committee the results of our benefits certification work.

The Audit Commission has set an indicative fee for benefits certification work for each body. The 2014-15 indicative fee is based on the actual benefits certification fee for 2012-13.

The indicative fee is based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims, with supporting working papers, within agreed timeframes.

#### 6 Our audit process and strategy

#### 6.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the 'Code') our principal objectives are to review and report on the Council's:

- Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources

to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

#### i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### ii Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our value for money conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- Arrangements for securing financial resilience whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- Arrangements for securing economy, efficiency and effectiveness whether the Council is prioritising its
  resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and
  productivity.

#### 6.2 Audit process overview

Our audit involves:

- ► Assessing the key internal controls in place and testing the operation of these controls
- Review and re-performance of the work of internal audit
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and valuations
- Substantive tests of detail of transactions and amounts

#### **Processes**

Our initial assessment across the Council has identified the following key processes where we will seek to test key controls:

- Accounts receivable
- Procure to pay
- Housing benefits and council tax reduction
- Council tax
- Business rates

#### **Analytics**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ► Give greater likelihood of identifying errors than random sampling techniques

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

#### Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements.

#### Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions, property valuations, financial reporting and tax.

#### Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error
- Significant disclosures included in the financial statements
- ▶ Entity-wide controls
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- ➤ Auditor independence

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- Reviewing and examining, where appropriate, evidence relevant to corporate performance management and financial management arrangements, and the Council's reporting on these arrangements.

#### 6.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council are £3.5m based on 2% of gross expenditure.

We will communicate uncorrected audit misstatements greater than £176,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

#### 6.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Oxford City Council is £114,900 with an estimated fee of £34,100 for the certification of the housing benefit subsidy claim.

#### 6.5 Your audit team

The engagement team is led by Mick West, who has significant experience in auditing local government clients. Mickis supported by Alan Witty as Senior Manager and Adrian Balmer who is responsible for the day-to-day direction of audit work and is the key point of contact for the chief accountant.

#### 6.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit and Governance Committee's cycle in 2015. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning	February – March 2015	April 2015	AuditFee letter Progress Report

Risk assessment and setting of scopes	March-April 2015	April 2015	Audit Plan
Testing routine processes and controls	March-April 2015	June 2015	Progress Report
Year-end audit	July-September 2015		
Completion of audit	September 2015	September 2015	Audit Results Report
			Auditor's report (including our opinion on the financial statements and overall value for money conclusion).
			Audit completion certificate
			Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	By 31 October 2015	December 2015	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

#### 7 Independence

#### 7.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

#### Required communications

#### Planning stage

#### Final stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review
- ► The overall assessment of threats and safeguards
- Information about the general policies and process within EY to maintain objectivity and independence
- A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed
- Details of non-audit services provided and the fees charged in relation thereto
- ▶ Written confirmation that we are independent
- Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and yourpolicy for the supply of non-audit services by EY and any apparent breach of that policy
- ► An opportunity to discuss auditor independence issues

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

#### 7.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

#### Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

#### Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

#### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

#### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

#### Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of the audit engagement Director and the audit engagement team have not been compromised.

#### 7.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014

#### Appendix A Fees

#### A breakdown of our agreed fee is shown below.

	Planned Fee 2014-15 £	Out-turn 2013-14 £	Published fee 2013-14 £	Explanation
Total Audit Fee – Code work	114,900	114,900	114,000	Late fee variation because the NNDR claim is no longer within the Audit Commission regime and we can no longer rely on this work for opinion purposes
Certification of claims and returns	34,100	TBC	39,900	Additional work agreed with Council and DWP in relation to findings as reported in 13-14 Housing Benefits Qualification Letter
Non-audit work	No add	itional work is planne	ed	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 6.2 above
- We can rely on the work of internal audit as planned
- The Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based
- Our accounts opinion and use of resources conclusion being unqualified
- Appropriate quality of documentation is provided by the Council and queries raised are answered promptly and effectively
- ► The Council has an effective control environment

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. The level of fee can vary year on year depending on the amount of testing required for the housing benefits claim.

# Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Auditand Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach	► Audit Plan
Communication of the planned scope and timing of the audit including any limitations.	
Significant findings from the audit	► Report to those charged wit
<ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> </ul>	governance
► Significant difficulties, if any, encountered during the audit	
➤ Significant matters, if any, arising from the audit that were discussed with management	
<ul> <li>Written representations that we are seeking</li> </ul>	
<ul> <li>Expected modifications to the audit report</li> </ul>	
<ul> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	
Misstatements	► Report to those charged wit
<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> </ul>	governance
► The effect of uncorrected misstatements related to prior periods	
<ul> <li>A request that any uncorrected misstatement be corrected</li> </ul>	
▶ In writing, corrected misstatements that are significant	
Fraud	<ul> <li>Report to those charged with</li> </ul>
<ul> <li>Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> </ul>	
<ul> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> </ul>	у
<ul> <li>A discussion of any other matters related to fraud</li> </ul>	
Related parties	► Report to those charged wit
Significant matters arising during the audit in connection with the entity's related parties including, who applicable:	anuamanaa
► Non-disclosure by management	
► Inappropriate authorisation and approval of transactions	
► Disagreement over disclosures	
Non-compliance with laws and regulations	
▶ Difficulty in identifying the party that ultimately controls the entity	
External confirmations	<ul> <li>Report to those charged with</li> </ul>
► Management's refusal for us to request confirmations	governance
► Inability to obtain relevant and reliable audit evidence from other procedures	
Consideration of laws and regulations	<ul> <li>Report to those charged with</li> </ul>
<ul> <li>Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> </ul>	anuamanaa
► Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Aud and Governance Committee may be aware of	

Required communication			Reference	
Inde	pendence	•	Audit Plan	
Com	nmunication of all significant facts and matters that bear on EY's objectivity and independence	•	Report to those charged with	
	nmunication of key elements of the audit engagement director's consideration of independence and ctivity such as:		governance	
<b>•</b>	The principal threats			
•	Safeguards adopted and their effectiveness			
•	An overall assessment of threats and safeguards			
•	Information about the general policies and process within the firm to maintain objectivity and independence			
Goir	ng concern	<b>•</b>	Report to those charged with	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:			governance	
•	Whether the events or conditions constitute a material uncertainty			
<b>&gt;</b>	Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements			
•	The adequacy of related disclosures in the financial statements			
Sigr	nificant deficiencies in internal controls identified during the audit	•	Report to those charged with governance	
Fee	Information	•	Audit Plan	
<b>•</b>	Breakdown of fee information at the agreement of the initial audit plan	•	Report to those charged with	
<b>•</b>	eakdown of fee information at the completion of the audit		governance	
		•	Annual Audit Letter	
Hou	sing Benefit Certification work		nual Report to those charged	
•	Summary of certification work undertaken	cer	h governance summarising gran tification, and Annual Audit ter if considered necessary	

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## Agenda Item 4



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Peter Sloman Chief Executive Oxford City Council St Aldate's Chambers 109 St Aldate's Oxford OX1 1DS 01 April 2015

Ref: Fee Letter 2015-16

Direct line: 07881 518875

Email: MWest@uk.ey.com

Dear Peter

#### **Annual Audit and Certification Fees 2015-16**

We are writing to confirm the audit and certification work that we propose to undertake for the 2015-16 financial year at Oxford City Council.

Our 2015-16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

#### Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015-16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- ▶ Whole of Government accounts

For the 2015-16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015-16 scale fee is based on certain assumptions, including:

- ► The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- ▶ We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards



- The financial statements will be available to us in line with the agreed timetable
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable
- Prompt responses are provided to our draft reports

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

We have set the Council's planned fee at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2014-15, our audit planning process for 2015-16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

#### Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on the actual 2013-14 benefit certification fee and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015-16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014-15 benefit certification work, and to reflect any further changes in the certification arrangements.

#### **Summary of fees**

	Indicative fee	Planned fee
	2015-16	2014-15
	£	£
Total Code audit fee	86,175	114,900
Certification of housing benefit subsidy claim	25,438	34,100
Total	111,613	149,000

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

#### **Billing**

The indicative audit fee will be billed in 4 quarterly instalments of £27,903.25.

#### **Audit plan**

We aim to issue our 2015-16 audit plan early in 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in



relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

#### **Audit team**

The key members of the audit team for the 2015-16 financial year are:

M	ick	W	est
IVI	IUN	vv	CΟι

Director	MWest@uk.ey.com	Tel: 07881 518 875
Alan Witty Senior Manager	AWitty@uk.ey.com	Tel: 07966 404 269

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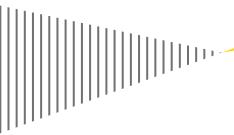
Yours sincerely

U. West

Mick West Director For and on behalf of Ernst & Young LLP United Kingdom

cc Nigel Kennedy, Head of Finance
Cllr James Fry, Chair of the Audit and Governance Committee





# Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

**Regulation news** 

Key questions for the audit committee

Find out more

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



## Government and economic news

#### EY ITEM Club Winter Forecast 2014-15

The latest forecast by the EY Item Club for winter 2014-15 highlights the global oil price collapse, which is creating winners and losers worldwide - with the UK decisively a winner. It sees cheaper energy giving consumers a major shot in the arm and driving inflation as measured by the Consumer Prices Index (CPI) down to an average of zero this year. As a result EY Item Club has revised up its forecast for UK GDP growth in 2015 to 2.9% from 2.4% in October. With inflation averaging zero in 2015, this will effectively put any rise in base rates on hold until 2016. Together with stronger real income growth, a boost in housing activity is predicted.

Against this, the negatives are risks which could arise, as opposed to existing ones. A lack of demand in the global economy is a factor reflected in the oil price and worries over the Eurozone are intensifying. Additionally, the consumer-led growth in the UK economy will leave it even more unbalanced and dependent on domestic consumption.

#### 2015-16 Local Government settlement

Following the provisional settlement published in December 2014, the government has published its final 2015-16 settlement in February. The overall reduction in spending power has been calculated as 1.7%, with a maximum reduction of 6.4%.

An additional £74mn has been allocated to upper tier authorities to reduce pressures in areas including local welfare and health and social care budgets.

The government also announced £37mn being provided to Authorities in 2014-15 for the provision of additional support packages to prevent hospital admissions where possible, and ensure that support is available to enable patients to leave hospital when they are ready.

The Local Government Association (LGA) has produced a briefing on the final settlement which includes the following messages:

- ► Councils will have to make savings of £2.5bn in their budgets in 2015-16. Sixty percent of respondents to an LGA survey in 2014 were considering stopping at least some key local services in 2015 due to lack of funding, which demonstrates the future pressure on front line services unless savings and alternative income streams are identified, and existing income streams maximised.
- Services including social care for children are seeing reductions for the first time
- ▶ Reductions of the same magnitude are forecast by the Office for Budget Responsibility and the Institute for Fiscal Studies until 2020
- ▶ The LGA welcomes the announcement of an additional £74mn, but calculates a reduction in welfare funding of £100mn



# Accounting, auditing and governance

#### Annual reports and accounts – lessons from the private sector

In its September 2014 report Out with the old, in with the new EY made observations from its review of 2013 annual reports in the FTSE 350. The issues and challenges addressed resonate strongly in the public sector. In this article, we consider some of the key messages from that report and how local government bodies can benefit from embracing those messages.

#### Does size matter?

It is a difficult balancing act to decide the optimum level of information reported to stakeholders. EY's report found that the best Annual Reports and Accounts were not necessarily the longest or the most detailed. Stakeholders want the annual report to present concise and relevant information in a way that helps them understand how their money is being spent and how their services are being managed, along with a clear description of the risks and challenges that lie ahead.

#### Think FBU - 'fair, balanced and understandable'

The annual report is a chance for bodies to tell the story of the last 12 months, and FBU is a helpful guiding concept. The focus of the report should be on the narrative – why we exist, our strategic priorities, how we have progressed over the last 12 months. Some of the best examples of transparent reporting explained 'what didn't go to plan' in key areas of the narrative. Reporting weaknesses, difficulties and challenges as well as successes, makes for a 'fair' and 'balanced' report and, over time, will help build trust with stakeholders. The best annual reports will have clear signposting between each section and will cross refer between sections.

Bodies should do more to integrate financial and non-financial reporting, for example, by highlighting the key financial

and non-financial strategic objectives and how chosen key performance indicators are truly driving value and achievement against these objectives. There should be a clear explanation of how risks impact the organisation and could impede the achievement of strategic objectives.

#### Good reporting of governance

The annual governance statement is particularly susceptible to repetition of boiler plate disclosures. The most important, interesting and valuable governance information is what the body actually did from a governance standpoint during the year and what changed. Be clear in what the messages are that need to be conveyed, including:

- ▶ Compliance with the CIPFA/SOLACE principles of good governance
- ▶ Key risks and challenges identified at the start and during the year
- Clear explanation of how these challenges were addressed
- Clear explanation of failings in governance
- Changes to governance arrangements made as a result
- Reports from those charged with governance describing what the board and its committees did in the year and a flavour of outcomes from their review of effectiveness

#### Conclusion

Good annual reporting should not be seen as a checklist exercise in disclosures. Continued focus should be put on making annual reports more helpful and understandable for stakeholders.



# Accounting, auditing and governance

#### Highly paid off-payroll appointments

#### What's the issue?

There have been some high profile cases where Government departments engaged individuals who had controlling roles in large public funded organisations but who were not directly employed by the organisation.

As a result of these cases the Treasury requires public sector bodies to report arrangements whereby individuals are paid through their own companies (and so are responsible for their own tax and NI arrangements).

#### What should your organisation have done about it?

To avoid sanction from HMRC and adverse publicity all public sector bodies are required to:

- ► Identify all contracts over £220 per day, which are expected to last for more than six months
- Ensure those arrangements contain clauses allowing your organisation to request assurance that the individual is paying the right amount of tax
- Undertake a risk assessment of all off-payroll engagements to determine whether assurance needs to be sought that the individual is paying the right amount of tax and where necessary that assurance has been sought
- Monitor whether assurance has been provided by each individual and maintain evidence
- If no assurance has been provided by the individual consider terminating the contract or putting the individual onto the organisation's payroll
- ► Comply with the detailed additional disclosures required in your Annual Reports

# Local Government Association consultation – sector-led improvement

The Local Government Association (LGA) has issued a consultation on the future of sector-led improvement, with a closing date of 15 March 2015.

Following the abolition of the previous national performance framework, sector-led improvement was introduced, with the LGA taking the role of supporting the sector. It was based on the premise that Authorities are accountable and responsible for their own performance. This shifted the emphasis from national accountability to local accountability, however it also removed the obligation for Authorities to be involved which left external stakeholders unsure about the robustness of the approach.

The LGA are taking stock to identify whether or not the approach is suitable, and whether or not any changes to the approach are necessary. The consultation also gives the opportunity for comment on the inspection of children's services.

All Chief Executives and Leaders should have been sent a unique link to enable them to respond. Others wishing to respond can do so either by filling out the online form or by emailing the LGA.

#### What makes a successful project in government?

Major government projects often hit the headlines for cost and time over-runs and but there are many examples of projects which are being delivered successfully.

As Authorities are increasingly facing funding pressures and looking for innovative ways to manage their finances, we are sharing some themes from the 2014 Successful Projects in Government conference. The conference was designed by the UK's Major Projects Authority, in cooperation with EY, the Ministry of Defence and the Nuclear Decommissioning Authority to share details of projects that had been delivered successfully due to the



leadership talents and ingenuity of project teams in tackling the challenges that all major projects face.

It brought together senior colleagues from across UK government departments to illustrate that despite the negative picture often painted of project delivery in government, the reality is different.

According to Brian Gorman, UK GPS Advisory Leader, who led the initiative "There is no 'one size fits all' solution to project success. The skills and capabilities required for Infrastructure projects can be very different to the skills and capabilities required for service delivery projects. We need to recognise these differences more explicitly in how we conceive, design, plan and resource our projects if we are to deliver maximum value for our investment."

The 40 case studies and outputs from the event have now been captured in a publication, designed to be a practical tool and network resource for those planning to undertake projects in the future, both in the UK and globally.

To explore these attributes in real situations, the projects showcased have been split into three central themes: service delivery, transformation and infrastructure. Each project provided fresh insights and nuances into what it takes to be successful but five common themes emerged across them all:

- Strong leadership to inspire, challenge and champion
- Accountability through and across the project
- Clear line of sight to crisp policy intent
- Experienced team who know their business and the business
- Strong stakeholder management

### Audit Commission report on data quality

The Audit Commission has produced a report on data quality, entitled Data quality matters, which reflects on the past work of the Audit Commission and its appointed auditors in relation to data quality.

The report emphasises the importance of data quality, and notes that it is an essential part of robust governance arrangements for securing value for money; since flawed data can result in ineffective decision making.

The key lessons that the report seeks to draw out are:

- ► Governance will be most effective when it involves two-way dialogue with the front line, to communicate the importance of data quality
- ▶ The value of data quality needs to be communicated throughout organisations
- ► The front line should be engaged in ensuring data quality
- Data quality should be assured as close as possible to the point of capture



# Regulation news

### Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 received Royal Assent on 30 January 2014. This officially makes it possible for the Audit Commission to effectively be wound down on 31 March 2015.

Several of the Audit Commission's key functions will continue after its closure. These are summarised below:

#### **Management of Audit Contracts:**

In order to continue with the management of audit contracts the Local Government Association has created an independent company to oversee the audit contracts. This independent organisation will be called Public Sector Audit Appointments Limited.

#### **National Fraud Initiative:**

The responsibility for managing, administering and reporting on the National Fraud Initiative (NFI) will pass to the Home Office with effect from 1 April 2015.

#### Code of Audit Practice:

Responsibility for producing and updating the Code of Audit Practice will pass to the National Audit Office with effect from 1 April 2015.

Section 32 of the Local Audit and Accountability Act 2014 gives the Secretary of State the power to make provision through regulations about the financial management, internal control, and annual accounts and audit procedures applying to relevant authorities. The Accounts and Audit Regulations 2015 were laid before Parliament on 17 February 2015 and reflect the requirements relating to annual published accounts and audit procedures applying to relevant authorities. The 2011 regulations will continue to apply for the completion of 2014/15 audits, with the 2015 regulations coming into effect for financial years beginning on or after 1 April 2015.

As noted in the January briefing, the Act introduces a compression of the audit timetable for Local Government accounts. This will require the publication of accounts, together with their audit opinion by the 31 July of the financial year immediately following the end of the financial year to which the statement relates. The explanatory memorandum accompanying the Act reiterates the Government's decision to defer this change until 2017/18 to allow a reasonable timescale for Local Government bodies and their auditors to adjust.



# Regulation news

#### NAO - draft Code of Audit Practice

The Local Audit and Accountability Act 2014 provides the legislative basis for the new framework for the audit of local public bodies which was announced by the Government in August 2010.

Previously, the Audit Commission was responsible for the preparation and maintenance of a Code of Audit Practice, which sets out the respective responsibilities of audited bodies and auditors; and explains what local auditors should do to meet their statutory responsibilities for the audit of local public bodies. The Local Audit and Accountability Act makes the Comptroller and Auditor General responsible for the preparation and maintenance of the Code of Audit Practice following the closure of the Audit Commission.

The National Audit Office (NAO) sought the public's views on the draft of its first Code in a consultation that ended at the end of October 2014, and published a final draft code in January 2015.

A key difference as compared to the Audit Commission codes, is that the NAO have taken the decision (which was supported by the majority of responses to the consultation) to produce a single code for all bodies within the new arrangements for local public audit.

The NAO have also pointed out that the Code is principles-based, and will be supported by detailed guidance to auditors which they will seek to provide with the aim of facilitating consistency whilst recognising that the same approach will not always be the most appropriate for all audited bodies.

Subject to Parliament's approval, the Code will take effect from 1 April 2015 for audit work relating to the 2015-16 financial year onwards.



# Key questions for the audit committee

### What questions should the Audit Committee be asking itself?

- ► How have we satisfied ourselves that we are fully compliant with the HMRC requirements regarding our off-payroll staff members?
- Have our officers critically evaluated the closedown process to identify areas that could be streamlined or brought forward? Are we aware of the areas of the 2014-15 accounts that will contain a higher risk of error and therefore require closer scrutiny?
- ▶ What have our experiences of sector-led improvement been? Are we satisfied that our electorate are able to hold us accountable, and if not, what can we do to enhance local accountability?
- ▶ What can we learn from successfully implemented major projects and how can we apply them to our own initiatives to maximise our finances to ensure that they are effective?
- ▶ Have we monitored our data quality arrangements and adjusted them in the light of changing risks and priorities?
- ▶ Do our data quality arrangements remain robust and effective?



# Find out more

#### EY Item Club

Read more from the ITEM club at: http://www.ey.com/UK/en/ Issues/Business-environment/Financial-markets-and-economy/ ITEM----Forecast-headlines-and-projections

#### 2015-16 Local Government settlement

Read about the final finance settlement at: https://www.gov.uk/ government/speeches/final-local-government-finance-settlement-2015-to-2016

The LGA briefing can be accessed at: http://www.local. gov.uk/documents/10180/5533246/LGA+Briefing+-+Local+Government+Finance+Settlement+2015-16+-+House+of+Commons+-+10+02+15.pdf/bbd1db5b-4363-4582-937e-7b92dcf60e60

### Highly paid off-payroll appointments

For further information see the HMRC guidance at: https://www. gov.uk/government/uploads/system/uploads/attachment data/ file/220745/tax pay appointees review 230512.pdf

### LGA consultation on the future of sector-led improvement

See details of the consultation at the link below: http:// www.local.gov.uk/documents/10180/6869714/L14-551+Where+next+with+sector-led+improvement/99e45118-653f-4749-a9ae-01b83d796cf0

### What makes a successful project in government?

For further details of the case studies presented at the conference, ask a member of your EY engagement team for a copy of the full publication.

### Audit Commission report on data quality

Find the report and supporting documents at: http://www.auditcommission.gov.uk/2015/02/data-quality-matters/

### Local Audit and Accountability Act 2014

The allocation of responsibilities is available at: www.auditcommission.gov.uk/about-us/the-future-of-the-audit-commissionsfunctions/

The Accounts and Audit Regulations Act 2015 can be found at: http://www.legislation.gov.uk/uksi/2015/234/contents/made

#### NAO - draft Code of Practice

Read the final draft code in full at: http://www.nao.org.uk/keep-intouch/wp-content/uploads/sites/11/2014/09/Final\_Draft\_Code\_ of\_Audit\_Practice.pdf

vote	

vote	

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To: Audit and Governance Committee

Date: 23 April 2015

Report of: Head of Finance

Title of Report: Internal Audit Risk Assessment and Plan 2015-16

### **Summary and Recommendations**

**Purpose of report**: To approve the audit plan for 2015-16 and outline the process for procurement the service for the provision of internal audit services.

Key decision: No

**Executive lead member: Councillor Ed Turner** 

Policy Framework: Budgetary Framework

### Recommendation(s):

- 1) That the Audit and Governance Committee approve the Audit Plan for 2015-16 as shown in Appendix A.
- 2) That members note the process for the procurement of the internal audit service.

### **Appendices**

**Appendix A** – Internal Audit Risk Assessment and Plan 2015/16

### Background

### **Purpose of Internal Audit**

1 The purpose of internal audit is to provide the Council, through the Audit and Governance Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the organisations agreed objectives. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the Annual Governance Statement. Internal Audit also

has an independent and objective advisory role to help line managers improve risk management, governance and control.

### Responsiblities

- Internal Audit must be performed in accordance with all relevant guidelines, including the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication on The Role of the Head of Internal Audit, The Accounts & Audit (England) Regulations (2011),HM Treasury's Public Sector Internal Audit Standards (PSIAS) and the associated CIPFA "Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.
- Internal audit work will be performed in accordance with PWC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards.
- 4 The Audit and Governance Committee are responsible for reviewing the internal audit programme in accordance with the Councils Constitution.

### **Preparing the audit Plan**

- The internal audit plan for 2015/16 as in previous years has been prepared by PWC in consultation with officers of the Council and taking into account the Councils organisational objectives and prioroties and the risks tha may prevent the Council from meeting these objectives. In summary the steps have involved include:
  - **Step 1** Understanding the Corporate Objectives and risks
  - **Step 2** Define the audit universe by identifying all the auditable units (i.e functions, processes or locations) within the organisation
  - **Step 3** -Assessing the inherent risk
  - **Step 4** Assessing the strength and control environment
  - **Step 5** Calculate the audit requirement rating
  - **Step 6** Determine the audit plan
  - **Step 7** Consider the additional audit requirements to those identified from the risk assessment process
- 6 The resultant plan produced for the authority based on the available number of days for 2015/16 is shown in Appendix A and details
  - Cross cutting systems reviews such as General Ledger, Payroll, debtors, creditors, housing rents, housing benefits and budgetary control which will general be undertaken annually
  - Department Level reviews based on risk and areas identified by officers
  - Value Enhancement Reviews covering a number of areas across the council

#### Internal Audit Service Procurement

7 The current internal audit service has been provided by PWC since 1<sup>st</sup> April 2009 under an initial contract which expired on 31<sup>st</sup> March 2013. The Council subsequently entered into a further contract with PWC off the back of a framework agreement drawn up by Cherwell District Council, with a termination date of July 2015. The Council is minded to test the market for services, since it is a relatively mature environment and will be seeking tenders in accordance with the timetable set out below:

Stage	Date
Advertise Contract	27 <sup>th</sup> April 2015
Receipt of Pre-Qualification	27 <sup>th</sup> May 2015
Questionnaires	
Tender Issued	15 <sup>th</sup> June 2015
Tenders returned	8 <sup>th</sup> July 2015
Contract award	24 <sup>th</sup> August 2015
Contract start	1 <sup>st</sup> October 2015

- The Internal Plan for 2015/16 that members are being requested to approve, may only be delivered by PWC up to the second quarter i.e 30<sup>th</sup> September 2015. From that point onwards the plan will either be delivered by a new partner organisation or by PWC should they bid and be awarded the contract going forward.
- 9 An extension will need to be agreed with PWC for the period from July to 30<sup>th</sup> September 2015.

### **Legal Implications**

10 There are no legal implications directly relevant to this report.

### **Financial Implications**

11 The Council is required to maintain a current effective internal audit function the costs of which have been budgeted for.

### **Environmental Impact**

12 There are no issues relating to environmental impact in connection with the recommendation contained within this report

#### Level of Risk

13 The provision of an internal audit function is aimed at mitigating many of the risks in the Councils business.

### **Equalities Impact**

14 There is no requirement to provide an Equalities Impact Assessment for this report.

Name and contact details of author:-

Name: Nigel Kennedy Job title: Head of Finance

Service Area / Department: Finance

Tel: 01865 252708 e-mail: <a href="mailto:nkennedy@oxford.gov.uk">nkennedy@oxford.gov.uk</a>,

List of background papers: None

# Internal Audit Risk Assessment and Plan 2015/16

**DRAFT for Discussion** 

Oxford City Council

April 2015

DRAFT



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### **Distribution List**

For action Members of the Audit and Governance Committee

For information Corporate Management Team

Heads of Service

This document has been prepared only for Oxford City Council and solely for the purpose and on the terms agreed with Oxford City Council.

50 PwC • Contents

# 1. Introduction and approach

### Introduction

This document sets out the risk assessment and our internal audit plan for Oxford City Council.

# Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by Oxford City Council's organisational objectives and priorities, and the risks that may prevent Oxford City Councilfrom meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

# Step 1 Understand corporate objectives and risks

• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

# Step 2 Define the audit universe

Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

# Step 3 Assess the inherent risk

 Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

# Assess the strength of the control environment

Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

# Step 5 Calculate the audit requirement rating

• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

# Step 6 Determine the audit plan

• Determine the timing and scope of audit work based on the organisation's risk appetite.

# Step 7 Other considerations

• Consider additional audit requirements to those identified from the risk assessment process.

# Basis of our plan

In order to carry out the level of work that our risk assessment indicates is appropriate, we estimate that the resource requirement for Oxford City Council's internal audit service is 235 days at rates set out in our contract. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes.

We have developed the audit plan for the full year to 31 March 2016, butour contract to deliver internal audit services concludes in July 2015. The Council is likely to commence a competitive tender process for Internal Audit services for the period from 1October 2015. We will complete internal audit reviews under the existing contract arrangements until this time.

# Delivery

The internal audit service comprises a number of reviews. Each review addresses one or more risks or systems, and is scoped to identify the relevant controls and monitoring, and then to test their operation.

There is a "Protocol" for the delivery of the internal audit service which establishes responsibilities of auditors and auditees, covering the whole process from agreeing terms of reference to implementation of recommendations. This is shared with each auditee at the first point of contact, and has been attached to the Internal Audit Charter which is a separate document that we update and present to the Audit and Governance Committee on an annual basis.

## Reporting

We recognise that it is essential that reports are produced and monitored in a timely and effective manner. Formal reports will be produced for each review identified in our internal audit plan, unless an alternative deliverable is agreed. Following completion of fieldwork, findings will be discussed at a clearance meeting with the audit sponsor and reports will be produced in line with the final report grading and circulation arrangements, as set out in the Internal Audit Charter.

Final reports receiving a risk classification of "Medium Risk" or above will be sent to the Audit and Governance Committee, along with a progress report which will summarise the work performed since the previous Committee meeting, and will highlight any areas of weakness and high priority recommendations.

# Basis of our annual internal audit conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do notbelieve that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

# Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

The other sources of assurance for Oxford City Council are as follows:

• External audit work;

- External inspections and awards;
- ISO accreditations; and
- The outcomes of previous internal audit reviews.

We do not intend to place reliance upon these other sources of assurance.

# Key contacts

Meetings have been held with the following key personnel during the planning process:

Name, Job Title	Name, Job Title	Name, Job Title
Organisational Development and Corporate Services	Community Services	City Regeneration and Housing
Jackie Yates, Executive Director	Tim Sadler, Executive Director	David Edwards, Executive Director
Simon Howick. Head of Human Resources and Facilities	Graham Bourton, Head of Oxford Direct Services	Jane Winfield, Regeneration and Major Projects Team
Jeremy Thomas, Head of Law and Governance (Monitoring Officer)	Ian Brooke, Head of Leisure, Parks and Communities	Stephen Clarke, Head of Housing and Property
Helen Bishop, Head of Customer Services	NathanVear, Interim Head of Environmental Development	Michael Crofton-Briggs, Head of City Development
Nigel Kennedy, Head of Finance (Section 151 Officer)	Val Johnson, representing Peter McQuitty, Head of Policy, Culture and Communications	
Jane Lubbock, Head of Business Improvement and Technology		

# 2. Audituniverse, corporate objectives and risks

## Audit universe

We have identified the auditable units within the Council based on the Council's structure and meetings with Officers and Members. Any processes running across a number of different elements in the Council and which can be audited once have been separately identified under cross-cutting reviews in the audit universe.

# Corporate objectives and risks

Corporate level objectives and risks have been determined by Oxford City Council. The corporate level objectives and risks have been considered when preparing the internal audit plan and have been mapped to the auditable units.

The corporate level objectives as documented in the "Corporate Plan 2013-17" are recorded in the table below.

Objective	Cross reference to Internal Audit Plan (see Section 4)
<b>Vibrant, Sustainable Economy:</b> A strong local economy, supported by effective education and training centre.	B5. Property Management - Investment properties VE.2 Trading Services
<b>Meeting Housing Needs:</b> More affordable, high quality housing in Oxford. This is essential for the vibrancy of the economy and the health and well-being of residents.	A3. Housing Benefits A4. Housing Rents B2. Housing Allocations B3. Homelessness Prevention
<b>Strong, Active Communities:</b> Communities that are socially cohesive and safe, and citizens who are actively engaged in pursuing their own well-being and that of their communities.	VE3. Law & Governance - Member Support Services
<b>Cleaner, Greener Oxford:</b> A cleaner, greener Oxford: in the city centre, in our neighbourhoods and in all public spaces.	VE.5 Enforcement
<b>Efficient, Effective Council:</b> A flexible and accessible organisation, delivering high-quality, value-for-money services.	All of our cross cutting process reviews address this objective along with reviews in the following areas:  • B4. Business Improvement & Technology - System Integration  • VE4. Procurement

We have also reviewed the Corporate Risk Register presented to the Audit and Governance Committee on 26 February 2015 and linked all risks with an assessment of Amber or Red to our audit plan.

Risk(s) to the achievement of objectives	Cross reference to Internal Audit Plan (see Section 4)
CRR-029Managerial Capacity: Managers become overstretched lose sight and focus on service delivery and performance suffers	VE.2 Trading Services
CRR-019 ICT Resilience: Resilience of ICT	B4. Business Improvement & Technology - System

Risk(s) to the achievement of objectives	Cross reference to Internal Audit Plan (see Section 4)
function managing projects and improvements alongside business as usual.	Integration
CRR-020Robustness of Medium Term Financial Plan: MT financial plan savings not delivered and pressures not accurately	A6. Budgetary Control, Risk Management and Performance
CRR-023 Managing Capital Projects and Contract Management: The need to ensure efficient management of capital projects and contracts.	A review of the Capital Gateway process was performed in March 2014.
CRR-025 Health & Safety of People	Corporate and Housing Stock Health & Safety review was performed in 2014/15.
CRR-027 Fraud: Risk of fraud against the council	Our cross cutting and departmental value protection reviews consider and assess the controls in place to mitigate the risk of fraud.
CRR-028 Data Protection: Breach of data protection act	The Council employees an Information Management & Compliance Specialist who works with Service areas to support data protection compliance and review areas of potential risk.

# 3. Risk assessment

### Risk assessment

Our risk assessment is based on:

- A review of the Council's risk registers;
- Consultation with a number of key stakeholders across the Council;
- A review of relevant documentation and reports;
- Our knowledge of the Council and results of Internal Audit work in 2014/15; and
- Our broader understanding of local government and the broader public sector.

Our risk assessment is limited to matters emerging from the processes listed above. We will review and update this assessment and the resulting plan annually. We will continually review the plan with management as risks emerge or change in priority and, with the approval of the Audit and Governance Committee, ensure that audit resources are appropriately focused.

A full risk assessment is included below. In order to carry out the risk assessment, we have defined all the auditable activities and processes in the Council (defined as the 'audit universe') and risk assessed each separate element of the audit universe (defined as 'auditable units') applying the methodology outlined in Appendix 1 and 2. This approach helps to ensure that we have a complete understanding of all areas in the Council which should be subject to Internal Audit and that these have been assessed on a Council-wide level.

From this risk assessment we have identified the areas that we propose to audit in 2015/16 and these have been included in the Internal Audit Plan in section 4.

### Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A	Cross Cutting Systems						
A.1	General Ledger	Efficient, effective Council	6	4	4	•	Annual
A.2	Debtors		6	3	5	•	Annual
A.3	Creditors		6	3	5	•	Annual
A.4	Payroll		6	4	4	•	Annual
A.5	Budgetary Control		6	4	4	•	Annual
A.6	Collection Fund		6	4	4	•	Annual
A.7	Treasury Management		5	4	3	•	Every 2

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
							years
A.8	Housing Benefits		6	4	4	•	Annual
A.9	Fixed Assets		6	4	4	•	Annual
A.10	VAT		3	3	2	•	Every 3 years
A.11	Housing Rents		6	4	4	•	Annual
A.12	Risk Management	•	6	4	4	•	Annual
В	Department Level						
	Organisational Development and C	Corporate Services					
B.1	Human Resources and Facilities	Efficient, effective Council	5	3	4	•	Annual
B.2	Law and Governance	Council	5	4	3	•	Every 2 years
В.3	Customer Services		5	3	4	•	Annual
B.4	Finance		5	3	4	•	Annual
B.5	Business Improvement and Technology		5	4	3	•	Every 2 years
	Community Services						
B.6	Oxford Direct Services	Cleaner, greener Oxford	5	3	4	•	Annual
B.7	Leisure, Parks and Communities	Stronger, active communities	3	2	2	•	Every 3 years
B.8	Environmental Development	Cleaner, greener Oxford	3	2	2	•	Every 3 years
B.9	Policy, Culture and Communications	Vibrant, sustainable economy	3	2	2	•	Every 3 years
	City Regeneration and Housing						
B.10	Regeneration and Major Projects Team	Vibrant, sustainable economy	5	4	3	•	Every 2 years
B.11	Housing and Property	Meeting housing needs	5	3	4	•	Annual

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.12	City Development	Stronger, active communities	5	4	3	•	Every 2 years

# Key to frequency of audit work

Audit Requirement Rating	Frequency – PwC standard approach	Colour Code
6	Annual	•
5	Annual	•
4	Annual	•
3	Every two years	•
2	Every three years	•
1	No further work	•
	Key areas of focus	••

The audit requirement rating drives the frequency of internal audit work for each auditable unit. Our recommended planning approach involves scheduling an annual audit when the rating ranges from 6 to 4, an audit every two years when the rating is 3 and an audit every three years when the rating is 2.

# 4. Annual plan and internal audit performance

# Annual plan and indicative timeline

The following table sets out the internal audit work planned for 1 April 2014 to 31 March 2015, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Q1	Q2	Q3	Q4
A	Cross Cutting Systems					
	Value Protection Reviews					
A.1	Finance Systems:  • Fixed Assets  • General Ledger  • Payroll	16			4	
A.2	Debtors and Creditors  Debtors  Income Collection Creditors	14			4	
A.3	<ul> <li>Collection Fund (Council Tax and NNDR)</li> <li>Reconciliations</li> <li>Calculation of liabilities</li> <li>Billing process</li> <li>Debt collection and recovery</li> <li>Arrangements for changes in legislation</li> <li>Uptake of online payment options for CT and BR</li> </ul>	12		4		
A.4	<ul> <li>Housing Benefits</li> <li>Reconciliations</li> <li>Accuracy of claims and Quality checks</li> <li>Overpayments – monitoring and recovery</li> <li>Uptake of online payment options for HB overpayments</li> </ul>	10		4		
A.5	Housing Rents  Reconciliations  Collection, recovery, arrears management  Uptake of online payment options	10		4		
A.6	Budgetary Control, Risk Management and Performance Budgetary control:  • Budget setting  • Budget monitoring (Revenue and Capital accounts)  • Management and monitoring of efficiency savings and income collection/generation activities Risk management and performance:  • Review of risk management arrangements for adequacy  • Use of performance monitoring software	12				4
	Sub Total	74	-	32	30	12

		Indicative				
Ref	Auditable Unit	number of audit days	Q1	Q2	Q3	Q4
В	Department Level					
	Value Protection Reviews					
В.1	Finance – Year End Support  • Year end accounts support in May 2016.	5				[4]
B.2	<ul> <li>Housing &amp; Property - Housing Allocations</li> <li>Housing is allocated in line with the Council's policy and procedures</li> <li>Rigour of evidence to support awards and defend decisions in light of growing scrutiny</li> <li>Applicant's identity is verified at initial stage of application</li> <li>Performance reporting</li> </ul>	12	4			
В.3	<ul> <li>Housing &amp; Property - Homelessness Prevention</li> <li>Controls around management of emergency housing placements for statutory homeless with private landlords</li> <li>Payments to landlords, rent guarantees,</li> <li>Equity between rent guarantee scheme and DHP and how it can be achieved in particular with regard to incentives</li> <li>Payments for dilapidations</li> <li>Landlord accreditation scheme</li> </ul>	10				4
B.4	<ul> <li>Business Improvement &amp; Technology - System Integration</li> <li>IT security controls around interfaces between systems e.g. Academy &amp; Agresso</li> <li>Review to assess status across Council and focus on older systems</li> </ul>	12			4	
B.5	<ul> <li>Property Management - Investment properties</li> <li>Management of investment properties, lease renewals, rent setting, collection and recovery.</li> <li>Valuations</li> <li>Consideration of implications for asset management strategy</li> </ul>	10	4			
	Sub Total	49	22	-	12	15
V	Value Enhancement Reviews					
VE.1	<ul> <li>Finance - Year end financial reporting timetable</li> <li>The accounts publication date for principal bodies is to be brought forward from 30 September to 31 July for the 2017/18 accounts onwards.</li> <li>The 14/15 year end close is being done for a 31/5/15 deadline as a trial. Review effectiveness of this and identify lessons learned.</li> <li>Provide insight into best practice from other Council's that achieve early close</li> </ul>	10	4			
VE.2	<ul> <li>Trading Services (including DSO)</li> <li>Increasing move towards trading Council services.</li> <li>Assess robustness of contracting arrangements, overhead calculations and recharge mechanisms, restriction clauses</li> <li>Adequacy of due diligence processes prior to entering contracts</li> <li>Consistent processes across the Council for award of contracts</li> <li>Contract performance monitoring arrangements and variations</li> <li>Client management, processes for feedback, complaints &amp; dispute resolution, managing reputational issues</li> <li>Processes for billing and debt collection</li> </ul>	16		4		

Ref	Auditable Unit	Indicative number of audit days	Q1_	<b>Q2</b>	<i>Q3</i> _	Q4
VE.3	<ul> <li>Law &amp; Governance - Member Support Services</li> <li>Adequacy of Council services, within the available budget, for providing administrative support and information services to Councillors to enable them to be effective within their roles.</li> <li>Best practice training for Members</li> <li>Review implementation of "Members Guarantee" improvement plan</li> </ul>	7				4
VE.4	<ul> <li>Procurement</li> <li>Monitoring overall process, timeliness and efficiency</li> <li>Best practice insight</li> </ul>	12	4			
VE.5	<ul> <li>Enforcement</li> <li>Enforcement decisions are made in accordance with the Constitution delegated powers to authorise enforcement action.</li> <li>Staff have appropriate qualifications, competence and experience as authorised under the relevant legislation to carry out enforcement functions.</li> <li>Robustness of evidence to support decisions</li> <li>Environment, licences, planning</li> </ul>	12				4
	Sub Total	57	22	16	-	19
	20/15/16 Sub Total	180	44	48	42	46
	Recommendation follow-up: prior year recommendations are followed up in our annual VP reviews. Other follow-up is performed by management.	-				
	Audit Management	40	4	4	4	4
	Contingency	15	4	4	4	4
	2015/16 Total	235				

In addition to these services, we will provide a range of benefits to the Council at no additional cost which include:

- Regular technical updates and alerts from PwC Assurance on topics including accounting changes and new legislation;
- Circulation of recent publications by PwC and PwC's Public Sector Research Institute plus ad hoc reports;
- Provision of thought leadership pieces;
- Ad hoc briefings for the Audit Committee (e.g. risk management and local government finance); and
- An invitation for the Chair of Audit Committee and officers to attend our local training days.

# Key performance indicators

Appendix 4 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported quarterly to the Audit and Governance Committee.

# Appendix 1: Detailed methodology

## Step 1 -Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your Corporate Plan 2013-17 and Strategic Risk Register;
- Drawn on our knowledge of the Local Government sector; and
- Met with a number senior management and non-executive members.

# Step 2 -Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for Oxford City Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

# Step 3 -Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating							
	6	5	4	3	2	1		
6	6	6	5	5	4	4		
5	6	5	5	4	4	3		
4	5	5	4	4	3	3		
3	5	4	4	3	3	2		
2	4	4	3	3	2	2		
1	4	3	3	2	2	1		

## Step 4 -Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audit reviews.

## Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk			Control desi	gn indicator		
Rating	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

# Step 6 -Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequencyof audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

# Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

# Appendix 2: Risk assessment criteria

# Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impactrating	Assessment rationale
6	Critical impact on operational performance; or Critical monetary or financial statement impact (materiality); or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact (materiality/2); or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact (materiality/4); or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact (materiality/8); or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact (materiality/16); or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificantimpact on the organisation's operational performance; or Insignificantmonetary or financial statement impact (materiality/32);or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

# Appendix 3: Key performance indicators

# Key performance indicators

To ensure your internal audit service is accountable to the Audit and Governance Committee and management, we have proposed the following key performance indicators.

KPI	Target	Responsible
Infrastructure		
Audits budgeted v actual	100%	Internal Audit
Planning		
Percentage of audits with Terms of Reference	100%	Internal Audit
Audit sponsor contacted	No less than 4 weeks before the start of audit fieldwork	Internal Audit
Meeting between Audit Sponsor and Internal Audit to agree scope of review	<b>No less than 3 weeks</b> before the start of audit fieldwork	Internal Audit and Audit Sponsor
Draft scope issued to Audit Sponsor and Head of Service for agreement	<b>No less than 2 weeks</b> before the start of audit fieldwork	Internal Audit
Fieldwork		
Exit meeting to confirm matters arising from the audit.	No more than 1 week after the completion of fieldwork	Internal Audit and Audit Sponsor
Reporting		
Initial draft report issued to Audit Sponsor, Head of Service, Executive Director, Head of Finance, Executive Director Organisational Development and Corporate Services and other agreed stakeholders	No more than 2 weeks after exit meeting	Internal Audit
Report finalised, and circulated.	No more than 1 week after final draft report has been issued.	Internal Audit
Attendance at Audit and Governance Committee	100%	Internal Audit



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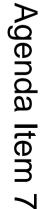
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# Oxford City Council

**Housing Rents** 

Internal Audit Report 2014/2015 April 2015





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	Peter Sloman (Chief Executive)

This report has been prepared by PwC in accordance with our engagement letter dated 1 July 2013.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

# Executive summary

#### **Report classification**



Medium risk (8 points)

#### Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	О	0	0	2	0
Operating effectiveness	О	0	1	3	0
Open prior year findings	О	0	0	0	0
Total	О	0	1	5	0

# Summary of findings:

We evaluated the controls and processes the Council has in place for housing rents for both permanent housing and temporary accommodation.

We identified **one medium risk** issue relating to the timeliness of income reconciliations. The daily rent reconciliation was being performed an average of 6 days after date and in 8 of the 20 cases tested the delay was over a week. There was also no process for independent review of the reconciliation. Timely reconciliation and review is a key control to mitigate the risk of misstatement of rental income.

We also identified **five low risk** issues relating to:

- Refund reconciliations
- Processing new tenancies (temporary accommodation)
- Right to Buy processing
- Right to Buy valuation
- Arrears recovery

The Council reorganised its debt recovery team as of 1 September 2014. We considered the processes and controls around arrears recovery and raised one low risk issue (as listed above).

We used Computer Assisted Audit Techniques ("CAATs") to identify potential discrepancies in the accuracy and completeness of housing rents, our procedures covered the following areas:

- Identification of properties charged rent in the year but not present in the year end portfolio
- Identification of properties in the year end portfolio but not charged rent
- Properties were charged the correct rent (rent to apply) for the expected number of periods
- The general ledger reconciliation to the housing system

The results highlighted a number of exceptions; these have been followed up with management and we were able to obtain evidence to clear all findings.

The overall report classification has been assessed as medium risk.

#### Future considerations

### Universal Credit:

In April 2015 the government will be rolling out the next stage of Universal Credit to new claimants. Oxford City Council was one of the authorities to pilot the scheme and therefore no significant impact is expected on the council. Eventually Universal Credit will be brought in for everyone claiming the benefits and tax credits it replaces. It is hoped that the scheme will help claimants and their families to become more independent and will simplify the benefits system by bringing together a range of working-age benefits into a single payment. The potential impact on arrears could be significant as the scheme expands but the Council will better placed to implement changes and deal with the challenges it poses.

The council has proactively continued with direct payments for tenants and have changed processes to manage arrears. The council managed to get approximately 88% of individuals in the pilot scheme to sign up to direct debits, this will remain key as the scheme expands. The Council is well positioned with 60% of all housing revenue received directly from tenants and the remaining 40% from housing benefits. The proportion received directly from tenants is higher than most local authorities, which again highlights the strong position of the Council. The plans to deal with universal credit could be considered for internal audit review in 2015/16.

### Right to Buy(RTB) disposals

Recent statistics released by the Department of Communities and Local Government (DCLG) for Q1 of 2014/15 showed that between April and June 2015, local authorities across the country sold an estimated 2,845 dwellings under the Right to Buy scheme. This is 31% higher than the 2,171 sold in the same quarter of

#### 2013/14.

As at October 2014 Oxford City Council had sold 29 properties through the Right to Buy scheme and a number of others are currently in the process being sold. A total of 46 were sold in 2013/14. The growing levels of Right to Buy sales need to be met with new builds to ensure that the level of social housing is maintained. The Council has started to build some new properties during the year but none of these have yet been occupied. They come under the Affordable Housing Programme (AHP) in which the Council will build 113 new properties using £2.4m of the Homes and Communities Agency (HCA) grant.

National RTB sales in 2014/15 are yet to reach the levels before the financial crisis; sales in 2014/15 Q1 were only 61 per cent of those in 2006/07 Q1, therefore one can anticipate growing level of sales/applications going forward. As RTB applications increase there is a need to consider the threat of potential fraud and this may be something the Council may wish to consider for future internal audit review

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## 1. Detailed current year findings

#### 1. Income reconciliations – Operating effectiveness

#### **Finding**

We assessed the Council's process for reconciling cash receipts on Paris, to the rental income management system, Northgate and the financial accounting system, Agresso. This reconciliation is performed daily and ensures the figures across all three systems match and any discrepancies are identified and resolved.

We selected a sample of 20 days, checking that the reconciliation had been carried out in a timely manner and that it had been reviewed. We found that reconciliations had been carried for all 20 days. However they were carried out an average of 6 days after the day being reconciled. In 8 out of 20 cases, the reconciliation was performed 7 days or more after the date being reconciled. The longest delay was 25 days on one of the samples.

We also found that no review of the reconciliation was performed; this would have allowed the delays in carrying out the reconciliations to have been detected and addressed. The lack of review of the cash/rent/general ledger reconciliation was also noted when we last performed this review in January 2012 and an action was agreed to implement a monthly review.

#### Ri<del>sk</del>s

There is a risk that rental income may be misstated, and action to address reconciling items is not taken in a timely manner.

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	Staff responsible for preparing the reconciliation will be reminded of the need to do so in a timely manner.	Anna Winship (Financial Accounting Manager)
		Target date:
	Going forward the reconciliation will be performed within 3 days of the date being reconciled. A system of reviewing the reconciliations on a monthly basis will be introduced.	30 April 2015

#### 2. Refund reconciliations – Operating effectiveness

#### **Finding**

A monthly reconciliation is performed between Northgate and Agresso systems for rent refunds. When the management accountant identifies reconciling items, these are sent to the relevant managers in the income recovery team for resolution.

We selected a sample of 2 months, and confirmed that the reconciliation had been carried out and actions had been sent to the relevant managers. However, confirmation that the required action has been taken is not obtained from the managers, instead this is checked via the reconciliation in the following month.

We also note that no independent review was performed to ensure the reconciliation had been performed.

#### Risks

There is a risk that rental income is misstated and that action to address reconciling items is not taken in a timely manner.

# Action plan Finding rating Agreed action A system of reviewing the reconciliations on a monthly basis will be introduced. Procedures will be put in place requiring the relevant managers to respond with confirmation of the actions they have taken regarding the reconciling item. Responsible person / title David Watt (Finance Business Partner) Target date: 30 April 2015

#### 3. Processing new tenancies (temporary accommodation) - Control design

#### **Finding**

A master list of all new temporary accommodation tenancies is maintained in the housing allocations department and is manually updated on a daily basis. The details are then processed into Northgate.

Although the spreadsheet clearly highlights which tenancies need to be set up on Northgate, we found that there is no process for periodically reconciling Northgate with the manual spreadsheet maintained by the housing allocations team.

#### Risks

There is a risk that new tenancies may not be set up on Northgate therefore rent or service charges not collected.

Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Procedures will be put in place to ensure that the manual list is reconciled to a report from Northgate on a monthly basis.	Tom Porter (Allocations Manager)
	arom rior tangute on a montany batter.	Target date:
		30 April 2015

#### 4. Right to Buy processing – Operating effectiveness

#### **Finding**

Where a tenant successfully applies for and purchases a property under Right to Buy (RTB), the tenancy on the income management system should be ended. For houses, this is a complete closedown, whilst for flats the rent charge is removed but the account is left partially open for a service charge to be added. The rent account should be cleared with any credit balance refunded to the tenant.

We selected a sample of 5 completed right to buy disposals and reviewed the tenancy end date and the balance on the account. In one case we found that the property had a credit balance remaining on the account which was a result of the following:

- the original rental credit balance from the end of tenancy had not been refunded; and
- the tenant had continued to pay into the rent account instead of the service charge account on several occasions. Although the rent account had been closed the system does not prevent payments from being received into it the account. If accounts were to be shut down and any subsequent payments went to a suspense account, this could help avoid the risk of them sitting undetected on a closed rent account.

With the above case there was a two day gap between the completion date and the date on which the service charge became effective. We noted that the housing rents team are not currently notified of the completions of RTB directly from legal.

#### Risks

There is a risk that payments are not refunded to former tenants in a timely manner.

Action plan		
Finding rating	Agreed action	Responsible person / title
Low	Low The rents team will be added to the distribution list for completed Right to Buys that legal send out on a monthly basis; this will then be actioned within the month to resolve credits on the account.	Damon Venning (Housing Rents Manager)
		Target date:
	Inquiries will be made as to whether closed rent accounts could be set to no longer receive payment. Any attempts to pay into the rent account could then be posted to a suspense account and addressed as required.	30 April 2015
	Staff will ensure that any service charge is set up based on the date of sale.	

#### 5. Right to Buy valuation – Operating effectiveness

#### **Finding**

The Council engaged the services of an external firm of RICS qualified valuers in November 2012, prior to this time valuations were performed in house. They are employed to give an arm's length independent valuation report which the Council can rely upon and submit in appeal cases where the applicant asks the District Valuer to determine the price. They have a professional duty to get the valuation figure right after visiting the property and analysing comparable properties to arrive at their determination.

As part of our audit we reviewed a sample of 5 RTB disposals which occurred during the year and obtained details of the latest valuation. In one instance we found the valuation upon which the property was sold took place over 2 years before the date of disposal. The property was sold in June 2014 and the latest valuation upon which the sale was based on took place on in May 2012.

#### Risks

There is a risk that valuations are out of date therefore properties not sold at a fair price.

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Finding rating	Agreed action	Responsible person / title
Low	The Council will ensure that the valuation of all RTB sales is no later than a year before the disposal date.	Martin Shaw (Project Manager, Housing & Property Services)
	Procedures to monitor this have already been put in place. The valuation firm, Marshalls have been appointed as the Council's external valuation contractor rather	Target date:
	than carrying out valuations in house. This has helped manage the increased valuations required as a result of the growing number of applications.	30 April 2015

#### 6. Arrears recovery - Control design

#### **Finding**

At the time of the audit (October 2014), the Council's arrears figure was £1.01m this is comparable to the figure of £1.16m in October 2013. If the figures are smoothed to take account of timing differences, the "real" arrears balances have only increased a small amount, from £752k in March 2014 to £765k in October 2014.

Under the new process for arrears management, staff receive a list of arrears every fortnight. The team work through these balances to ensure sufficient follow up action is taken to address each case. We reviewed a number of reports detailing accounts which are in arrears and the latest action taken for each case, we were satisfied that cases were being looked at regularly by officers to maximise chances of recovery.

We examined the process followed for four cases in detail and considered any potential gaps. We note the following:

- 1. The system does not allow for identification of tenants who have ceased payment but are shown in credit on the system. In one case a tenant had ceased payment however the account was in credit due to an error in Housing Benefit. As a result no recovery action was taken and this resulted in increased arrears once the housing benefit error was resolved.
- 2. The recovery process has potential vulnerability to unexpected staff absence. In one of the cases reviewed we found that staff absence resulted in delays in the steps required for recovery.

#### Risks

There is a risk rent arrears may build up and may not be managed in a timely manner.

Action plan			
Finding rating	Agreed action	Responsible person / title	
Low	All accounts where the team are notified of housing benefit being suspended will be looked at and contact made with the tenant to start recovery procedures if applicable.	Damon Venning (Housing Rents Manager)	
		Target date:	
	Individual members of staff have been allocated cases and given responsibility to follow cases through. This avoids cases being moved between officers. Process will be put in place for cases to be reallocated where staff have unexpected long periods of	30 April 2015	
	absence.		

## Appendix 1: Basis of our classifications

#### **Individual finding ratings**

Finding rating	Assessment rationale
Critical	A finding that could have a:  Critical impact on operational performance (quantify if possible); or  Critical monetary or financial statement impact (quantify if possible = materiality); or  Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or  Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High ∝	<ul> <li>A finding that could have a:</li> <li>Significant impact on operational performance (quantify if possible); or</li> <li>Significant monetary or financial statement impact (quantify if possible); or</li> <li>Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or</li> <li>Significant impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
Medium	<ul> <li>A finding that could have a:</li> <li>Moderate impact on operational performance (quantify if possible); or</li> <li>Moderate monetary or financial statement impact (quantify if possible); or</li> <li>Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or</li> <li>Moderate impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
Low	<ul> <li>A finding that could have a:</li> <li><i>Minor</i> impact on the organisation's operational performance (quantify if possible); or</li> <li><i>Minor</i> monetary or financial statement impact (quantify if possible); or</li> <li><i>Minor</i> breach in laws and regulations with limited consequences (quantify if possible); or</li> <li><i>Minor</i> impact on the reputation of the organisation (quantify if possible).</li> </ul>
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

#### **Report classifications**

Findings rating	Points	
Critical	40 points per finding	
High	10 points per finding	
Medium	3 points per finding	
Low	1 point per finding	



Report classification		
	Points	
	6 points or less	
Low risk		
	7– 15 points	
Medium risk		
	16– 39 points	
High risk		
	40 points and over	
Critical risk		

## Oxford City Council Terms of reference – Housing Rents

To: Damon Venning, Housing Rents Manager

Dave Scholes, Housing Strategy & Needs Manager

From: Kate Mulhearn, Internal Audit Manager

This review is being undertaken as part of the 2014/15 internal audit plan approved by the Audit and Governance Committee.

#### Background

Oxford City Council has a housing stock of approximately 7,600 properties across the city of Oxford. Rent is collected for these properties by the Housing Rents team. In addition, the Council owns 120 temporary accommodation properties for which rent is collected by the Housing Needs team. Rent is managed using the Northgate Housing system.

This audit will focus on reviewing the Council's rental income for both permanent housing and temporary accommodation. We will use computer data analysis ("CAATs") to identify any potential for discrepancies against defined expectations, as well as identifying and testing the controls the Council has in place.

#### Scope

We will review the design and operating effectiveness of key controls relating to Housing Rents during the period 2014/15. The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
The value of rental and service charge income recorded in the general ledger reconciles to the housing systems.	The total value of rent debits and service charge income generated by your housing scheme reconciles to the general ledger (This will be tested using Data CAATs see Appendix 2).
Reconciliations	Reconciliations of the housing system to the cash received and general ledger systems are performed on a regular basis by the Council and are appropriately reviewed by senior management.
Housing and temporary accommodation rental income is complete and accurate	Rent debits charged per property are complete and accurate (This will be tested using Data CAATs see Appendix 2).
Changes to Housing Stock	Any changes to housing stock are recorded and supported by a clear audit trail.
Recovery of Income	<ul> <li>Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving rent payments and loss of income is minimised.</li> <li>Processes are in place and operating effectively to ensure rent arrears are recovered from former tenants.</li> <li>Arrears are monitored on a regular basis.</li> </ul>

Rent Increases	<ul> <li>Rent increases are implemented promptly and accurately for all tenants, and have been appropriately approved.</li> </ul>
Housing Rent System Security	The IT system is appropriately secure with only authorised personnel able to alter Housing Rents parameter files.
Management Information	Management information is adequate to support prediction of rent trends and key performance indicators are set and monitored.

#### Limitations of scope

The scope of our work will be limited to those areas outlined above.

#### Audit approach

Our audit approach is as follows:

- Obtain an understanding of the Council's Housing Rents processes and controls through discussions with key personnel, review of systems documentation and walkthrough tests;
- Identify the key risks relating to Housing Rents;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.
- We will perform Data CAATs over the Housing Rents Population including the following tests:
  - o Identify properties charged rent in the year but are not present in the year end portfolio
  - o Identify properties in the year end portfolio but not charged rent
  - O Test if properties were charged the correct rent (rent to apply) for the expected number of periods
  - o Test the general ledger to housing system reconciliation

#### Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Kate Mulhearn	Audit Manager
Anjm Shahbaz	Audit Team Leader
Stephanie Hardy	Team Member
Chris Wood	Data Analyst

## Appendix 3: Limitations and responsibilities

#### Limitations inherent to the internal auditor's work

We have undertaken the review of Housing Rent, subject to the limitations outlined below.

#### 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

Outenassessment of controls relating to Housing Rents is for the 2014/15 year.

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 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 endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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# Agenda Item

## Oxford City Council

Sports Pitch and Facility Bookings

Internal Audit Report 2014/2015 **March 2015** 



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Distribution List	
For action	Ed Bonn, Parks Support Officer
	Emma Burson, Finance Business Partner
<u> </u>	Ian Brooke, Head of Leisure, Parks & Communities
CO For information	Nigel Kennedy, Head of Finance
	Tim Sadler, Executive Director - Community Services
	Jackie Yates, Executive Director - Organisational Development & Corporate Services
	Peter Sloman, Chief Executive

This report has been prepared by PwC in accordance with our engagement letter dated 1 July 2013.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

## 1. Executive summary

## Report classification Total number of findings Critical Control design 0 Medium risk (15 points) Operating effectiveness 0

#### **Summary of findings:**

We eviewed the design and operating effectiveness of controls and processes in place relating to Sports Pitch and Facilities Booking. In 2013/14 sport pitch and facility bookings generated total income of £109,402 and budgeted income for 2014/15 is £119,070.

We found **four medium risk** issues relating to the following:

• Invoice accuracy – we tested a sample of 25 bookings and found a number of errors in the amount charged and the VAT added to the invoice. We were also unable to obtain evidence of payment for 2 invoices and found that 2 bookings were recorded in error.

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High

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Medium

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Low

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3

- Segregation of duties —many of the tasks involved in the booking, invoicing and payment are being undertaken by one member of staff resulting in a lack of segregation of duties as well as a high level of dependence on this particular member of staff.
- Banking of cash and cheques –the banking form which is sent to finance for reconciliation to actual payments was not accurately completed in 2 out of 5 samples tested.
- Compliance with financial regulations the invoicing procedures in place have not been agreed or signed off by the Head of Finance as required by the Council's financial regulations.

We also identified three **low risk** issues relating to:

- Aged debt there is no process in place for recording action taken to recover outstanding debt.
- Invoicing of bookings there is no process in place to identify bookings which have not been invoiced.

Open prior year findings

**Total** 

• Online payments - when payments are made online, the bookings team have no way of knowing that a payment has been made without receiving confirmation from the customer.

The Council acts as the host authority for the Oxfordshire Sports Partnership (OSP). OSP is made up of 6 members who represent and support key partners in providing sport and active recreation opportunities in Oxfordshire. We considered the governance arrangements in place within the OSP and found them to be robust with clear representation from the Council and arrangements for the escalation of financial or operational issues.

Overall we found a number of control design and operating effectiveness issues around sports pitch and facility bookings. Since sharing the findings of our review, an action plan has been drawn up to migrate the invoicing process to Agresso. This will address many of the control weaknesses identified.

The Council should also consider implementing an online booking system for its services which should include sports bookings. Our system specialists can share insight on how they have supported the successful implementation of similar systems elsewhere if required.

The overall risk has been assessed as medium.

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## 2. Detailed current year findings

#### 1. Operating effectiveness – Invoice accuracy

#### **Finding**

When a sports facility booking is made it is logged on a master spreadsheet maintained by the Parks Support Officer and an invoice is raised. The invoice is raised manually using a proforma and prices are based on those published on the Council's website.

We tested a sample of 25 bookings made and found the following:

- There was a small difference (£10 or less) between the price charged and the price as per the Council's published list for 5 out of 25 samples. The price charged in all 5 of these cases was slightly less that what was on the price list and upon investigation we found no evidence to explain this difference.
- The VAT charged on the invoice was incorrect for 4 out of 25 samples, although the value of the difference was small in all cases.
- 2 of the 25 invoices had been marked as paid however we were unable to obtain evidence that these had been paid.
- For 2 out of the 25 samples tested the bookings were not actually made but were assumed bookings based on the customers previous bookings. In one of these cases the booking was invoiced, this was subsequently cancelled.

#### Risks

Loss of Council income and customers are invoiced inaccurately with errors in both price and VAT.

Action plan	Action plan		
Finding rating	Agreed action	Responsible person / title	
Medium	An action plan is in place to transition to corporate financial processes whereby all invoices will be raised in Agresso, and customers signposted to ways to pay. This will ensure most efficient and effective way of invoicing is utilised depending on customer	Emma Burson, Finance Business Partner Ed Bonn, Parks Support Officer	
	and frequency of booking.	Target date:	
	Ensure that the fee sheet for sports bookings includes Net, VAT and Gross amounts, to eliminate errors caused by incorrect calculation of invoice amounts.	1 April 2015	
	No longer take cash and cheques at the Parks Office, implementation will take some months, but with the aim of being cash and cheque less by September.	1 September 2015	

#### 2. Control design – Segregation of duties

#### **Finding**

One member of staff (the Parks Support Officer) is responsible for all of the following tasks:

- Recording bookings
- Invoicing customers for bookings
- Receiving and counting cash
- Completing the banking from to send to finance
- Taking payments over the phone
- Monitoring payment of invoices.

There is a lack of segregation of duties in the booking, invoicing and payment process.

#### Risks

There is a risk of fraud or error which could lead to a loss of income. Operational issues may arise as a result of loss of key member of staff.

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	With all invoices being raised in Agresso, this removes the need for collection of payment at the depot. There will be segregation of (1) taking bookings, (2) invoicing teams and (3) receipt of payment.	Emma Burson, Finance Business Partner Ed Bonn, Parks Support Officer
	The Booking spreadsheet maintained by the Parks Support Officer can be used to cross-reference against invoices to identify teams which haven't been invoiced.	Target date:  1 April 2015

#### 3. Operating effectiveness – Banking of cash and cheques

#### **Finding**

All cash and cheque payments received by the sports team are collected for banking by the Council's cash collection agency, Jade Security. The sports team send banking sheets to the Finance team who have details of the general ledger codes to which income should be posted and the amount which they should expect to receive. The banking sheet is kept in a folder until it has been matched to payments coming into the bank.

We tested a sample of 5 banking sheets and agreed the amounts to bank statements. We found the following:

- In 1 of the 5 samples, the amount on the banking sheet did not agree to the amount on the bank statement. The amount actually received was approximately £125 more than what had been counted by the sports bookings team.
- In 1 of the 5 samples tested, the banking sheet had showed a value of approximately £1,800 in cash which Finance were expecting to receive. This was incorrectly entered on the form as the cash had not actually been collected by Jade Security.



#### Risks

The banking form is not accurately completed leading to variances in cash received compared to what is expected. A build-up of cash at the sports booking office increasing the risk of loss due to theft.

#### **Action plan**

Finding rating	Agreed action	Responsible person / title
Medium	With the introduction of Agresso invoicing, and signposting of payments via normal routes this should negate the need to collect cash and cheques at the depot.	Ed Bonn, Parks Support Officer Emma Burson, Finance Business Partner
	Note that in the case of the £1,800 difference above, it was investigated by the Council and was subsequently received on $26/01/2015$ .	Target date: 1 April 2015

#### 4. Control design – Compliance with Financial Regulations

#### **Finding**

The Council's financial regulations state that the Head of Finance is responsible for ensuring that systems are in place to ensure that all income is identified, collected, receipted and promptly banked.

The sports bookings team do not use the main financial system, Agresso, for invoicing. The alternative procedures adopted have not been agreed or signed off by the Head of Finance.

#### Risks

Non-compliance with the Council's financial regulations.

Action plan			
Fitaing rating	Agreed action	Responsible person / title	
Medium	The use of Agresso for sports bookings will be implemented. Sports pitch and bookings guidance note will be drafted in conjunction with the Service Area and approved by the Head of Finance.	Emma Burson, Finance Business Partner	
		Target date:	
		1 April 2015	

#### 5. Control design – Aged debt

#### **Finding**

When an invoice is raised it is saved in an electronic folder entitled 'Unpaid Invoices'. Once the invoice has been paid, the invoice in question is re-located to another folder entitled 'Paid Invoices'. No other list of outstanding debt is maintained.

Invoices outstanding for long periods will be chased up by the sports bookings team; this is usually done over the phone. Details of action taken to recover the debt are not logged. We tested a sample of 5 outstanding invoices and were unable to obtain details of any specific action taken to recover the debt.

All invoices in our sample had been outstanding for over 150 days.

#### Risks

Appropriate action required for debt recovery is not taken, or documented leading to a loss of income.

Action plan		
Finding rating	Agreed action	Responsible person / title
Low	When invoices are raised on Agresso, any outstanding debt is the responsibility of Finance to recover, who may require assistance/further information from the Service Area.	Ed Bonn, Parks Support Officer Emma Burson, Finance Business Partner
	The Finance team circulate a monthly debtor's spreadsheet from Agresso, highlighting all outstanding invoices. This spreadsheet will enable staff to cross-check outstanding invoices .	Target date: 1 April 2015
	Further training to be given to Parks Support Officer for reports that can be run to show whether a payment has been made.	

#### 6. Control design - Invoicing of bookings

#### **Finding**

There is no way of confirming that all bookings made have been invoiced. All bookings are logged in the bookings spreadsheet which is in a calendar format and there is nothing to indicate that these have been invoiced.

#### Risks

Bookings are not invoiced which could lead to a loss of income.

#### **Action plan Finding rating Agreed action** Responsible person / title Investigate introduction of booking software to allow confirmation that bookings have Low Ed Bonn, Parks Support Officer been invoiced. This will be considered as part of a wider review of online booking Emma Burson, Finance Business Partner across the Council's services. 96 The usage of Agresso to invoice sports teams will ensure that teams invoiced for **Target date:** bookings can be cross-referenced against the sports booking spreadsheet, to identify teams which haven't been invoiced. 1 April 2015

#### 7. Control Design – Online payments

#### **Finding**

The Council is increasingly moving customers towards online or electronic payment options for services and sports booking customers do currently have the option of paying invoices online.

Because the invoice references for sport bookings are not in line with the references used by finance (as invoices do not currently go through Agresso), when payments are made online the bookings team have no way of knowing that a payment has been made without receiving confirmation from the customer. The money in question is categorised as "Miscellaneous" by finance in the first instance, then allocated to the correct Cost Centre and Account Code upon confirmation from the customer that the payment had been made. In practice, online payments have been kept to a minimum for the above reasons.

#### Risks

Patonents by cash and cheque increase risk of loss or theft.

Efficiencies available through increased use of electronic online payment options are not achieved.

#### Action plan

nding rating	Agreed action	Responsible person / title
Low	A more practical solution to taking online payment should be implemented.	Ed Bonn, Parks Support Officer
	The move to invoicing on Agresso will assist with matching online payments to invoices.	Emma Burnson, Finance Business Partner
		Target date:
	An online booking system as discussed above would also help manage the increasing use of online /electroinc payment options.	1 April 2015

## Appendix 1: Basis of our classifications

#### **Individual finding ratings**

Finding rating	Assessment rationale	
Critical	<ul> <li>A finding that could have a:</li> <li>Critical impact on operational performance (quantify if possible); or</li> <li>Critical monetary or financial statement impact (quantify if possible = materiality); or</li> <li>Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or</li> <li>Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).</li> </ul>	
High  A finding that could have a:  • Significant impact on operational performance (quantify if possible); or  • Significant monetary or financial statement impact (quantify if possible); or  • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or  • Significant impact on the reputation or brand of the organisation (quantify if possible).		
Medium	<ul> <li>A finding that could have a:</li> <li>Moderate impact on operational performance (quantify if possible); or</li> <li>Moderate monetary or financial statement impact (quantify if possible); or</li> <li>Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or</li> <li>Moderate impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>	
Low	<ul> <li>A finding that could have a:</li> <li>Minor impact on the organisation's operational performance (quantify if possible); or</li> <li>Minor monetary or financial statement impact (quantify if possible); or</li> <li>Minor breach in laws and regulations with limited consequences (quantify if possible); or</li> <li>Minor impact on the reputation of the organisation (quantify if possible).</li> </ul>	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.	

## **Report classifications**

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium 3 points per finding	
Low	1 point per finding



Report classification		
	Points	
	6 points or less	
Low risk		
	7– 15 points	
Medium risk		
	16– 39 points	
High risk		
	40 points and over	
Critical risk		

#### Appendix 2: Terms of reference

## Sports Pitch and Facility Bookings

To: Ian Brooke, Head of Leisure, Parks & Communities

From: Kate Mulhearn, Internal Audit Manager

This review is being undertaken as part of the 2014/15 internal audit plan approved by the Audit and Governance Committee.

#### Background

Oxford City Council ("the Council") has a Sports Bookings team which amongst many other duties are responsible for handling bookings, setting fees and charges, invoicing customers and maintaining the facilities. Income is generated from hiring out the sports facilities and providing maintenance services.

In 2013/14 sport pitch and facility bookings generated total income of £109,402 and budgeted income for 2014/15 is £119,070.

In dition, the Council acts as the host authority for the Oxfordshire Sports Partnership (OSP). OSP is made up of 6 members who represent and support key partners in providing sport and active recreation opportunities in Oxfordshire. As the host authority, the Council operates under the oversight of the Executive Board for day to day management.

OSP had total income of £1,102,633 in 2013/14 and has a budget of £1,056,446 income in 2014/15. Income is generated predominantly from grants; however other services such as events, workshops and joint initiatives with partners also contribute income.

This review aims to focus primarily on the key controls over income generated from Sports Pitch and Facility bookings. The review will consider controls relating to the invoicing of income, the reconciliation of income to the main accounting system, the recovery of income and the budget setting process. The review will also consider the governance arrangements within OSP.

#### Scope

We will review the design and operating effectiveness of key controls relating to Sports Pitch and Facilities bookings during the period 2014/15.

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Reconciliation of income	Designated ledger codes are in place for income generated from sports facility and pitch bookings.
	<ul> <li>Income is transferred to the main accounting system completely, accurately and efficiently.</li> </ul>
Invoicing	All bookings are invoiced accurately and in a timely manner.
Recovery of Income	The Council appropriately monitors all unpaid debt and actively tries to recover the debt.
Ca <mark>st</mark> Payments	Procedures for taking and recording cash payments are adequate.
	Cash held is appropriately safeguarded.
Budget Setting	Review the structure of the budget for sports facility income and costs and compare to best practice.
Governance arrangement for Oxfordshire Sports Partnership	The governance structure of the Oxfordshire Sports Partnership is appropriate and in line with the Council's financial regulations.
	<ul> <li>Financial and operational performance is monitored and discussed by senior management.</li> </ul>

## Limitations of scope

The scope of our work will be limited to those areas outlined above.

#### Audit approach

Our audit approach is as follows:

- Obtain an understanding of the process and controls relating to Sports Pitch and Facility bookings through discussions with key personnel, review of systems documentation and walkthrough tests;
- Identify the key risks relating to Sport Pitch and Facility bookings;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.
- Review the governance arrangements for Oxfordshire Sports Partnership and provide insight into opportunities to strengthen these as appropriate.

#### Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Kate Mulhearn	Internal Audit Manager
Anjm Shahbaz	Audit Team Lead

## Appendix 3: Limitations and responsibilities

#### Limitations inherent to the internal auditor's work

We have undertaken the review of Sports Pitch and Facility Bookings, subject to the limitations outlined below.

#### 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.

## Four periods

Our assessment of controls relating to the Sports Pitch and Facility Bookings review is for the 2014/15 year.

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 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 endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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To: Audit and Governance Committee

Date: 23 April 2015

Report of: Head of Finance

Title of Report: Internal Audit Report 2014-15

**Rosehill Community Centre** 

#### **Summary and Recommendations**

**Purpose of report**: To present to Audit and Governance members a 'lessons learned' report undertaken by the Council's auditors PWC on the capital project for the construction of a new Community Centre at Rosehill.

Key decision: No

**Executive lead member: Councillor Ed Turner** 

**Policy Framework: Budgetary Framework** 

Recommendation(s):

1) That the Audit and Governance Committee note the PWC report together with the management response

#### **Appendices**

Appendix A - Internal Audit Report

#### Background

- 1 On the 24<sup>th</sup> September 2014 the City Executive Board (CEB) received a report requesting project approval for the award of a tender for the construction of Rose Hill Community Centre.
- 2 The report indicated that despite value engineering; the project cost would exceed both the budget build estimate (£3.486 million) and the overall budget allocation (£4.286 million). It therefore asked CEB to recommend

- to Council an increase to the budget allocation of £478k, bringing the total budget to £4.764 million.
- 3 Consequently Members requested officers undertake a review of the project to understand what lessons could be learnt in order to protect subsequent capital projects/budgets. Price Waterhouse Coopers (PWC), the Council's internal auditors were commissioned to undertake this work. Their report is attached at Appendix A and sets out a number of detailed recommendations.

#### **Management Response**

- 4 Management welcome this report which has highlighted a number of issues from the inception of the project through to project approval. With the benefit of hindsight clearly some of the issues arising could have been mitigated. These include: holding a 'bidders day', which may have identified the potential budget shortfall due to the improvement in the construction sector as well as the impact on bidder interest; due to the volume of new construction projects being released to the market.
- Management did take proactive action, replacing key staff who were not performing. However, there were also other unforeseen and significant changes in project staff that blurred responsibilities of those on the project team.
- The decision to proceed to tender despite a forecast £200k (6%) budget overrun was based on the assumption that the overspend would be recovered through post tender value engineering.
- 7 Whilst this tender was below the threshold set by the Public Procurement Regulations the Council followed an OJEU like process which was undertaken within the spirit of the regulations which requires all bidders to receive equal and fair treatment through a transparent process.
- 10 The tender process was fully transparent and carried out in accordance with the EU regulations.
- 11 The key learning points from the project that management have already acted on and will be applied to future capital projects are as follows:
  - a. Any designated project manager must be fully cited from start to finish on all project documentation and processes.
  - b. Officers must be clear on project roles and responsibilities and have been trained in the Council's project management methodology prior to working on a project.
  - c. All capital projects must follow the Council's new capital gateway process.
  - d. All projects of £100k plus must have a Procurement Strategy written and approved before they commence to tender.

e. The role of the external professional advisors must be clear and the relationship managed by an officer with appropriate knowledge and skills

#### **Next Steps**

#### **12** Next steps include:

- The report will be discussed at the Capital Asset Management Group Meeting (CAMG) which monitors the capital programme to enable dissemination of learning with a wider team of officers.
- In accordance with the Capital Gateway process a post project evaluation session will be undertaken on the Rosehill project.
- The Capital Gateway process and associated Officer training will themselves be reviewed to pick up lessons learnt.
- Detailed responses to individual recommendations will be reported to the next Audit and Governance Committee as part of the Audit Tracker report.

#### Legal Implications

13 There are no legal implications arising from this report.

#### Financial Implications

14 These are covered within the report.

#### Level of Risk

15 The significant programme of regeneration being undertaken by the Council does bring with it increased risk to the Council's business. The Capital Gateway process including 'lessons learned' reports as in the case of Rosehill will ensure that these risks are mitigated as far as possible.

#### **Equalities Impact**

16 There is no requirement to provide an Equalities Impact Assessment for this report.

#### Name and contact details of author:-

Name: Nigel Kennedy Job title: Head of Finance

Service Area / Department: Finance

Tel: 01865 252708 e-mail: <a href="mailto:nkennedy@oxford.gov.uk">nkennedy@oxford.gov.uk</a>,

#### List of background papers: None

# Internal Audit Report 2014/2015 Rose Hill Community Centre

January 2015

Oxford City Council



pwc

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- 1. Executive summary 1
- 2. Detailed findings 3

Appendix 1 – Terms of Reference

Appendix 2 - Questionnaire Responses

Appendix 3 - Meetings with the Project Team

Appendix 4 - Limitations and responsibilities

#### **Distribution List - TO BE UPDATED**

For action:

For information: Nigel Kennedy, Head of Finance

Ian Brooke, Head of Leisure, Parks and Communities

David Edwards, Executive Director, City Regeneration & Housing

Jackie Yates, Executive Director, Organisational Development & Corporate

Services

This report has been prepared by PwC in accordance with our engagement letter dated o8/07/13.

This report has been produced based on information provided by Oxford City Council and their supply chain, in the form of project documentation, the completion of questionnaires and discussions held during meetings on 8 & 9 December 2014 at Oxford City Council offices.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

## 1. Executive summary

#### Headlines / summary of findings:

#### Background

The development of the Rose Hill Community Centre is a majorcapital works programme being undertaken by Oxford City Council (the Council). It is anticipated that the new community centre will be completed in December 2015 with the opening planned for January 2016.

The initial tenders were received in March 2014 and were over the £3.486M included in the capital budget for construction. The tender documents were re-issued in July 2014 and only two tenders were received, neither of which fell within the existing budget figure. In September, the Project Manager made a request to the City Executive Board (CEB) for an increase of £0.478M to the project budget giving a revised total cost for the project of £4.764M.

This review was performed at the request of management and in addition to the Internal Audit plan agreed by the Audit andGovernance Committee. We have considered the management of the Rose Hill Community Centre project, particularly between the period Q3 2012 and Q1 2014, and the factors that have contributed to the project overspend. We have reviewed project documentation provided by the Council and their external suppliers, and obtained information from Project Team members though a questionnaire (Appendix 2) and face-to-face meetings on 8 and 9 December 2014 (Appendix 3).

The council uses an external teams to deliver high value projects that are led by an external project manager. This is a very common approach as it enables the council to attain specialist advice and mitigates many of the risk associated with what are often complex projects. This team is then managed by an internal client team.

Over the duration of this project and in response to a growing capital programme officers have developed more advanced project management procedures including clear gateways.

#### **Summary of findings**

Our review has identified a number of areas where processes for capital project management could be strengthened. We summarise our key findings as follows, with further details and recommendations set out in section 2:

- The economic upturn in the construction sector resulted in a range of new large construction projects becoming available to the main contractors operating in Oxford. The Council had successfully used the 'Open' tender process on other similar projects. Using the 'Restricted' tender process could have encouraged more bidders although may have been challenged by SMEs and central government due to the sub-OJEU capital value;
- A bidders day to publicise the tender and invite potential interested organisations together with a contract price based on spring 2014 pricing may have provided an early indication that competition for

this project was unlikely to achieve competitive bids within the Council's approved budget;

- Immature contract documentation relating to the Works Information, resulted in a significant number of tender queries and clarifications, potentially dissuading a number of Economic Operators from submitting tenders;
- The need for clarity and understanding of the correct project roles and responsibilities, especially in relation to the internal acceptance of project scope / works information and monitoring of evolving project costs (inclusive of risk / contingency sums) against the approved budget within the Council's capital works programme;
- Significant changes in the project team members and professional advisors contributed to misunderstanding regarding roles, responsibilities and project governance;
- The process for establishing project costs is standard in this sector of industry, however more thought could have been given to the effect of specifying non-standard items on the project costs; and
- Despite the submission of project cost estimates as the project scope / design evolved, Oxford City Council team members do not appear to have measured these costs against the approved budget and taken the necessary action to reduce estimated costs or gain the required additional funding in advance of going to tender believing that the cost estimate would be driven down during the tender exercise
- Examples were also highlighted during the review that demonstrate the Project Team were adopting
  best practice approaches, such as in the extensive consultation process with stakeholders and end users
  during the design evolution and the methodology used for benchmarking and determining project cost
  estimates.

## 2. Detailed findings

#### 1. Procurement

#### **Choice of Procurement Process (Open versus Restricted List)**

Oxford City Council (the Council) chose an Open procurement process for this piece of capital works investment, based on the following rationale:

<sup>1</sup>The authority had recently successfully used the open route for previous construction related projects with no issues.

- The Government strongly recommend that the open process is utilised by both central and local government for tenders.
- This process is helpful to smallerlocal organisations that are often unable to compete with larger national organisations at selection stage.
- The tender process timeline can be shortened.'

This Open process was advertised via the South East Business Portal (which has national coverage), however only 2 tenders were received.

Commentary received from project team personnel expressed a number of views as to why this happened:

- Tender value was difficultly positioned within the marketplace (Oxfordshire and surrounding areas),
   i.e. too high a tender value for the smaller contractors, too small for the bigger contractors;
- The target audience (mid-size contractors) within the marketplace had recently been saturated with ~£40M of capital investment over the previous 12 month period from Oxford City Council, notwithstanding investment from other private and public bodies, e.g. Oxford University; and
- The uncertainty associated with the Open procedure was a deterrent to a number of the larger contractors, who might well have then engaged smaller contracting entities through sub-contracts. This uncertainty was described against a background of not knowing how many other tenderers they were competing against and judging this against their risk appetite. These companies would appear to be more comfortable with the standard restricted process of a PQQ followed by ITT / ITN, with which they are familiar and can justify levels of effort commensurate with each stage of the procurement process.

#### **Choice of Procurement Vehicle (South East Business Portal)**

The Council has no frameworks of its own for Capital Works delivery, however there are a number of smaller frameworks for minor / measured term works such as plumbing / housing maintenance.

<sup>&</sup>lt;sup>1</sup> Report to Exec Director, Community Services – Contract Award Request

The Council has severaloptions in relation to Capital Works procurement vehicles:

- The South East Business Portal can be used as the hosting site for the procurement, whereby Tender
  / Contract Documents are uploaded, tender queries received and responded to and tenderers notified
  of the results of the procurement action. This would allow them to advertise opportunities on an
  Open / Restricted basis, following the Public Procurement Regulations, for opportunities under or
  over the OJEU thresholds:
- Local Government Framework Hampshire County Council;
- Central Government Framework HCA (Housing); and
- Central Government Framework IESE (Improvements and Efficiency South East).

It was felt by the Procurement Team that the Stakeholders wanted to see a quick progression to commencement of work on site, to demonstrate to the community that the Council was fulfilling its obligations. Hence the decision to use an Open procedure through the South East Business Portal.

The Procurement Team outlined the feedback they had received from the marketplace after conducting post-tender research into the low number of responses. This feedback indicated that there was a perception regarding higher competition from an Open competition, making the tendering costs uneconomical. It could therefore be suggested that using the existing Frameworks with prequalified contractors may have resulted in a higher number of tender returns, resulting in a higher degree of competitive tension, even if an Open process was still followed.

This option would have only been apparent if the marketplace had been tested / consulted in advance of the commencement of the Rose Hill procurement.

#### **Procurement Strategy Documentation**

There is an absence of a specific report outlining the rationale and decision making process in relation to initiating the procurement process. Instead discussions and decisions have been documented in the minutes of Project Board meetings.

A key recommendation for future procurements is to prepare a specific document that clearly outlines the rationale for decisions and the conclusions drawn.

This should also include consideration as to how each procurement action sits within and or compliments the Council's overall capital works programme. The Procurement Team personnel spoken to indicated that they have no role within the programming / strategy of Capital Works Programmes. Given the clear dependency between these functions, it may add value to have representatives of the Procurement Team involved.

#### **Events during the Tender Period**

Members of the Procurement Team expressed concern regarding the volume of iterations of tender / contract documentation after uploading to the South East Business Portal. Furthermore they also expressed concerns at the volume of queries requiring clarification on the content of the documentation.

Having reviewed a selection of tender queries, the majority focused on errors / ambiguities / omissions within the original tender package. If this selection is representative of all tender queries received / clarifications issued, clearly a large amount of time for both the Procurement Team and the tenderers would have been taken up with managing version / document control, as opposed to assessing, understanding and responding to the opportunity. It could reasonably be expected that some potential tenderers decided not to respond to the tender opportunity due to the high number of changes / queries, contributing to two key

#### issues:

- Low number of tenders returned; and
- Higher than expected tender values, based on a perception of a high risk opportunity being weighed against risk appetites.

Whilst tender queries and clarifications are always expected, a large number of queries, coupled with a high volume of document revisions could lead to a conclusion that the tender package was not adequately matured / reviewed prior to release. This perception has been echoed by the Procurement Team.

#### **Post Tender Evaluation and Assessment**

The Council received two tenders in response to its request from Beard and Kingerlee. It is understood that an iterative process was followed after the tenders were returned in order to maximise the Works Information requirements and tendered sums against the Council's budget. This process is covered in depth within the Council's and The Clarkson Alliance's (external project managers) documentation so will not be repeated here<sup>2</sup>. We noted a number of specific issues which are worthy of attention. These issues are:

- Revision of Qualitative Scores An amendment was made to Kingerlee's qualitative score based on the post-tender deadline submission of an omitted Risk Register. This additional assessment changed their quality / technical score from 36.05% to 40.4%.
  - o It is recommended that post-submission compliance checks are carried out on Tenderer's submissions to ensure all required documentation has been correctly submitted. The Public Procurement Regulations permit the post-deadline submission of material where is it clear that an administrative error has occurred, such as a missing document or a blank one. Normally these omissions / errors are captured during the compliance check and the tenderer given an opportunity to submit the omitted material, within a strict timeline. It is recommended that no assessment, qualitative or commercial, is carried out until it is deemed that a fully compliant tender has been received. This would be considered best practice.
- Adjustment of tendered sums Beard adjusted their tender sum to include items previously not priced, increasing from £4.198M to £4.250M.
  - o It could be considered contrary to best practice under an Open (or indeed Restricted tender process) to adjust tendered sums after the tenders are received, especially where no clear arithmetic errors have been identified. Any post tender adjustments following an iterative process to ensure all tenderers are progressing forward on an even basis would be more suited to a Competitive Dialogue procedure, as outlined within the Public Procurement Regulations.
- Inability to conclude Evaluation The Report indicated that the evaluation could not be concluded due to the tendered sums still being higher than the Council's approved budget.
  - It is recommended that the Council maintainsa degree of separation between the conclusion of an evaluation / assessment process and the awarding of a contract. Compliant tenders should be evaluated until a preferred bidder / most economically advantageous tender is

<sup>&</sup>lt;sup>2</sup> Report to Exec Director, Community Services – Contract Award Request

identified. The awarding of a contract and budgetary approval is a separate issue.

#### Recommendations

- Future procurement actions should be preceded by marketplace consultation to aid in determining the most suitable procurement vehicle.
- The choice between an Open or Restricted procedure should be considered against not only time constraints, but the likelihood of achieving engagement from the marketplace and achieving the correct balance of competitive tension.
- The Council should review the Frameworks it has access to and determine, for the current and forthcoming Capital Works Investment programme, if these Frameworks offer the most suitable vehicle or if indeed an Oxford City Council Capital Works Framework would be more beneficial. This would yield the best results where the Capital Works pipeline is well defined and aligned and continuous projects can be procured. One-off or intermittent projects may well be better suited to the South East Business Portal but yield less advantageous results.
- Development of a specific Procurement Strategy Document, as opposed to records of discussions
  from meetings, that provides an auditable and transparent narrative of the options and decisions
  taken, along with the rationale, for future tender actions.
- Identification of a clear and accountable process for reviewing the completeness and maturity of tender documentation prior to release to the marketplace.
- Future procurement processes should provide the required separation between the tender evaluation / assessment process and contract award.
- Ensure all aspects of the Public Procurement Regulations are complied with, especially with regard to understanding the legal difference between what is deemed a Clarification and a Change.
- Apply best practice such as a compliance check on the tender submission if this has not already been implemented as part of the Council's new Capital Gateway Process.

#### 2. Project Scope & Documentation

#### Roles during the evolution of the project scope and contract documentation

In relation to team member roles during the evolution of the project scope and contract documentation the following were noted:

- A referendum was held with the Community to establish need. This was flag ship development and a key objective was to keep the community on board. There are examples where councils have not dopnme this and ended up with poorly used facilities.
- The Internal Client Project Manager believed they had no involvement in the development of the project scope, as this had been managed by another prior to his appointment as Internal Client PM (see Finding 4: Governance Roles & Responsibilities). The agreed project scope was issued to the external supply chain, consisting of Designers and Project & Cost Managers. The Internal Client PM also stated that they reviewed the Room Data Sheets (Works Information);
- The External Project Manager stated that the Works Information was developed from the scheme designs, approved by the Project Board;
- The Procurement Team stated they had no involvement in the development or management of the project scope and the subsequent Works Information within the Contract Documentation; and
- The Finance Lead stated they had no involvement in the development or management of the project scope and the subsequent Works Information within the Contract Documentation.

#### Control over the project scope and mitigation of Scope Creep'

In relation to the control over the project scope and mitigation of 'Scope Creep', which could have a knock-on effect on costs, we note the following:

- There was a significant change in personnel mid-way through 2013 (discussed in detail in Finding 4) as the project scope was being finalised with stakeholders and end-users. This was undertaken to strengthen the project governance, but the downside to such changes is a loss in continuity.;
- We were advised that there was significant consultation (with the Community and other stakeholders) with regard to the usages of the building and its shape and form. This process formed the basis of the project scope and facilitated the development of the detailed Designs, with the final output being the individual Room Data Sheets, these forming thebasis of the Works Information. This extensive consultation is considered best practice to ensure the end-users requirements are considered throughout the design evolution process; and
- There does not appear to be any flaws in the process that led to the development of the Works Information but the impact of the consultation process, where end-users had a significant say in the development of the 'specification', may have had a detrimental impact on the project's approved budget. One example cited in relation to the impact of this consultation was the increase in the building size, from 1,810m² to 2,022m².

#### Adequacy of review of the Contract Documentation

In relation to the adequacy of review of the Contract Documentation that was subsequently released to the

#### marketplace, we note the following:

- Through discussions with the Internal Client PM, as to who was responsible for reviewing the
  Designs and Works Information element of the Contract Documentation, the Internal Client PM
  could not identify who within the Council was responsible or who undertook the review and sign-off
  of the documentation prior to release;
- The Internal Client PM was unaware of any missing information from the documentation provided by the external suppliers or a lack of maturity within the documentation prior to release to tender;
- The Internal Client PM believed that the external supplier responsible for developing the contract documentation was inexperienced with the Public Procurement Regulations and that this may have contributed to the friction between the external supplier (The Clarkson Alliance) and OCC's internal Procurement Team;
- The Procurement Team reviewed the tender package / contract documentation, but may not have been suitably qualified or experienced to review the Works Information elements; and
- Designs were submitted to the Council during the design development stage and recorded as being signed off on 17 January 2014.

- Strict control of how the developing scope is monitored against the project brief to ensure that endusers requirements are carefully scrutinised against affordability restrictions and the final scope does not represent a 'wish list' that is significantly over engineered / specified from the original brief / requirements. This should be carried out prior to issue and repeated quarterly, as a minimum.
- Clarity is required in relation to Client project team roles in order to identify accountability and responsibility for reviewing and accepting technical elements of Contract Documentation.
- The Council should ensure external suppliers, especially those tasked with the development of procurement documentation should be familiar with the requirements and processes within the Public Procurement Regulations (or applicable procurement laws) in order to ensure those documents are fit for purpose.

#### 3. Project Budget & Control

In order for a Contracting Authority (Client) to maintain control over their budget, regular monitoring of scope costs against budget is required.

It has been well documented within the tender reports that the tender costs received for the Works werein excess of the Council's budget and how this was managed post-tender. In this review we therefore focussed on how the costs were monitored against the budget prior to the tender process.

The Clarkson Alliance (TCA) was appointed during Q3/Q4 2012 to provide Project and Cost Management services in respect of the Rose Hill Community Centre. Prior to TCA's appointment the Council's budget was  $\sim £3.03$ M. One of the first activities TCA undertook was a revised (Stage D) cost estimate. On the basis of this new estimate, the City Executive Board gave delegated authority to the Executive Director of Community Services in December 2012, to progress the award for a construction contract for the community centre, with a budget of £3.486M.

The cost estimates provided by TCA evolved throughout the development of the project scope. The basis of their cost estimates ranged from rates (per sq. meter) for similar use structures, to the use of SPONS Estimating Guidelines (standard estimating guides for Building & Civil Engineering projects) as well as benchmarking with similar projects.

Throughout 2013, TCA provided the Council with a number of cost estimate updates as the project scope / design developed, from Stage D through to Stage G, which represented the final cost estimate prior to the release of the contract documentation to the marketplace.

The Stage G (Pre-Tender) Estimate was calculated at £3.686M, approximately £200k (6%) higher than the Council's budget. The Project Board took the decision to go ahead with the tender action, despite this increase. At the conclusion of the tender period, the two tendered sums received for the Works were both in excess of the approved budget (£3.486M) at£4.198M and £4.580M

From reviewing the documentation and discussion with the various project team members, the following has been noted:

- From December 2012 to January 2014, there does not appear to have been any update to the Council's approved budget to coincide with the increasing construction cost estimates submitted by TCA, with neither of the following key responses occurring:
  - The project scope was not reduced to bring the cost estimate in line with the approved budget; or
  - o The Council's budget was not increased to match the Cost Manager's Pre-Tender Estimate;
- In October 2013 a full review of the PID, risk register and finances were undertaken. At this time the external project manager and cost consultant did not raise the budget increases which was a key factor for making changes to the external support team.
- The Project Board took the decision to proceed to the marketplace with the Project Scope at a higher cost estimate than the approved budget; we understand this decision was taken in the hope that the competitive tension in the marketplace would drive prices lower (only ~6% required) and the Council could then deliver the project within the budget;
- A number of project team members, and the tenderers themselves, have pointed to a number of nonstandard items specified within the Works Information, which had driven the costs up. The

construction companies were though asked to provide suitable alternatives to ensure that the quality was achieved, but they could use their experience and supply chain to bring costs down. The tenderers identified a number of opportunities for value engineering out the non-standard items and achieving time and cost savings; and

• The Project Risk Allowance for the construction costs was reduced from 6.7% to 4.5% from Stage D to Stage G. Normally this kind of reduction in risk allowance follows best practice, whereby design maturity and risk reduction processes have given greater confidence to the project in order to remove uncertainty from the overall costs. However it could be suggested in this particular instance, that risk and uncertainty still remained within the contract documentation, demonstrated by the high number of tender queries and document revisions.

- Stricter budgetary control during the design development phase in order to ensure a realistic budget for the approved scope, not just at key project gateways.
- Greater understanding through marketplace consultation, of the economic conditions in advance of releasing a tender package.
- Greater understanding of the effect of 'non-standard' items on the project cost.
- Review the role of the Project Board with regard to allowing tender documents to be issued to the marketplace where the Pre-Tender Estimate is in excess of the approved budget. What body / person within the project team / Council is empowered to make this decision?

#### 4. Governance – Roles & Responsibilities

The previous sections have highlighted a number of issues in relation to the composition of the project team and the roles and responsibilities.

In Q3 2013 the Council underwent a corporate restructure. As a result the Project was transferred from the Corporate Assets department, under Steve Sprasson (Project Sponsor) to Community, Leisure and Parks, under the direction of Ian Brooke, Head of Leisure, Parks and Communities.

Other personnel changes also occurred:

- Mark Spriggs, OCC's Communities Officer, who had been responsible for the development of the project scope, handed over the responsibility for the project scope development and evolution to The Clarkson Alliance (TCA) / ADP Architects around Q3/Q4 2012;
- Nick Twigg was appointed the Internal Project Manager in January 2014. This role was also called the 'Intelligent Client' by a number of the project team and had significant responsibility for liaising between the external suppliers and the internal team members;
- Significant realignment of resources within TCA, took place in Q1 2014 based on a perceived lack of performance, dating back to Q4 2013. The Project Manager and Cost Manager were replaced. This resource change occurred during the initial procurement process, whilst the team were trying to manage significant volumes of tender queries;
- Within ADP Architects, a key partner who had taken significant ownership of stakeholder engagement during the consultation with the local community and the outline development of the project scope, was replaced around Q3 2013; and
- In the Finance team, Emma Burson replaced Jonathan Marks in January / February 2014 as the Finance Lead.

Despite the creation of a Project Initiation Document, which detailed the roles and responsibilities of each project team member / role, the responses to the questionnaire and the discussions held with project personnel have highlighted a number of key areas that give cause for concern:

- Budgetary Control There appears to have been a lack of clarity over responsibility / ownership with
  regard to monitoring and managing the budget. Whilst it would appear that external suppliers such
  as TCA were providing updated project cost estimates throughout 2013 as the project progressed
  through design stages, stringent reviews of these costs against the project budget would have been
  expected to have been undertaken / monitored by the Finance Department; and
- Release of Tender Documentation As documented previously, it is widely believed that significant
  difficulties arose during the procurement phase because of an immaturity with the tender package
  and contract documentation. The Internal Project Manager stated that he felt nothing fundamental
  was missing from the documentation, but that he could not recall a formal sign off / acceptance
  process of the information supplied by the external project manager in advance of release to the
  marketplace.

- Stringent review should be undertaken of internal and external project members' qualifications and experience of working on projects of a similar scope, scale and complexity to ensure future projects are correctly resourced.
- Implementation of quarterly refreshers, as part of team-building exercises with project teams, to ensure all key project roles are clearly understood and that any grey areas can be explored and resolved within a collaborative working environment.
- Ensure lines of communication and delegated authorities are clearly understood, especially in relation to acceptance of work product from external suppliers.
- Development and implementation of processes to support the review of project documentation and ensure appropriate stakeholder engagement (to cover, experience, qualification and business function). For example, part of the process could include across-function workshop to review contract documentation in advance of release.
- Closer monitoring, at least in the short term, of external suppliers to avoid a culture of passing all responsibility outside of the Council's governance.

#### 5. Performance Management

During our discussions and review of documentation, we considered the effectiveness of the management processes and controls to monitor project performance against original objectives and budget, and actions taken to address variations.

- Members of the Procurement Team took responsibility for ensuring the procurement process adopted was in line with the Council's internal policies, procurement regulations andlegislation. Furthermore members of the Procurement Team escalated issues associated with a perceived underperformance of the external project management staff in relation to their management of the tender process. This escalation resulted in the replacement of the resources from the external supplier. The proactive manner in which this issue was identified and addressed should be recognised;
- The Project Sponsor stated that performance management was undertaken at each Board with the external project manger for TCA.
- The Internal Project Manager indicated that the External Project Manager (TCA), were undertaking the management processes and outlined how issues were raised and addressed at the monthly Project Board meetings, at which multiple stakeholders and project team members attended. Significant reliance is being placed on external suppliers to carry out key governance tasks for the Council, with no description provided of how the Council monitored this;
- The Finance Lead indicated that since her appointment in Q1 2014, she monitored and managed the impact of the over-budget costs that were returned at tender, throughout the valuation exercise, reporting to the City Executive Board and acquiring additional funds to allow the contract to be awarded. This is clear evidence of the positive impact that a change in project personnel can bring; and
- The external project managers (TCA) outlined the implementation of a software package, Conject, which is designed to assist with the administration of contracts under the NEC (New Engineering Contract) suite of contracts. Consideration should be given to assess thesuitability of this productas a management tool during the design and procurement phases of a project. TCAalso made reference to their internal QMS procedures, however without a more detailed review it is difficult to assess the applicability of this as a Performance Management tool for the Council or if these QMS procedures are more of a quality assurance / control mechanism for The Clarkson Alliance.

- The Council should review their procedures for future capital works governance and seek to ensure that these key areas for project performance management are undertaken by Council staff where appropriate. If an external supplier is to be used to undertake performance management tasks, the Council should identify an internal Council resource to monitor and audit the external supplier's work outputs.
- Clarity is required in relation to Client project team roles in order to identify accountability and responsibility for reviewing and managing project performance indicators.
- Key milestones within the project lifecycle need to be identified at the appropriate time, key issues
  such as performance to programme, financial approvals, suitability of critical resources and a critical
  review of project scope against objectives should be assessed and measured. This may have already
  been addressed by the Council as part of the implementation of the Capital Gateway Process, which
  did not form part of this review.

#### 6. Risk Management Procedures

It is clear that procedures were in place throughout the project to identify, assess, catalogue and communicate risk throughout the project team and stakeholders. Examples of the Project Risk Register have been submitted which follows a standard matrix structure along with Red / Amber / Green (RAG) coding to each risk item based on its likelihood to occur / consequences of occurrence.

Both the internal and external project managers have outlined how they met to review and manage this register, with issues then being flagged at the monthly project board meetings for action, as appropriate. Despite this process being in place, the effectiveness of the interventions at Project Board level was uncertain which may have contributed to escalating costs which were not managed effectively, resulting in the protracted procurement process and the need to gain additional funding to allow the contract to be awarded.

The Clarkson Alliance has indicated that a construction stage risk register has already been developed, which if pro-actively implemented, has the potential to help monitor and avoid issues that could delay the programme or increase costs during the construction / delivery stage.

- Developed Risk Registers are fully implemented and used as a key management tool and not simply completed in order to adhere to organisational process.
- The personnel representing the Project Board are empowered to act when risks are escalated to the Project Board to ensure remedial action is taken.
- Review how the new Capital Gateway Process addresses risks and issues and consider how it fits with the overall project assurance approach.

## Appendix 1 – Terms of Reference

To: Nigel Kennedy, Head of Finance

Ian Brooke, Head of Leisure, Parks and Communities

From: Kate Mulhearn, Internal Audit Manager

This review is being undertaken in addition to the 2014/15 internal audit plan at the request of management.

#### Background.

In February 2014, Oxford City Council unveiled the final plans for the new Rose Hill Community Centre. The new community centre will bring together several existing services under one roof including the social club, advice centre and youth club. It will also provide a new doctor's surgery, a community gym, a fully equipped training kitchen and a new office for Thames Valley police. In addition, the existing sports pavilion will be demolished and new Sport England & Football Association compliant facilities will be provided in the new centre. It is anticipated that the new community centre will be completed during spring 2015.

The initial tenders were received in March 2014 and were over the current estimate of £4,286,000 included in the capital budget. The tender documents were re-issued in July 2014 and two tenders were received, neither of which fell within the existing budget figure. In September, the Project Manager made a request to the City Executive Board (CEB) for an increase of £478,000 to the project budget giving a revised total cost for the project of £4,764,000.

This review will assess the management of the Rose Hill Community Centre project to date and consider the factors that have contributed to the project overspend. We will compare to best practice capital project management processes and identify lessons learned for application to this and other capital projects.

#### Scope

This review will cover the following scope:

- Review the structure and governance (roles & responsibilities) of the project team through the evolution of the project to date, including engagement with key stakeholders
- Assess adequacy of project scope and sufficiency of detail to enable reliable estimates of budget, timescale and other resource requirements
- Review the procurement strategy and the decisions and direction taken as the project evolved
- Review the process for determining the original budget estimate. Assess whether the budget was approved in accordance with the Council's constitution and scheme of delegated authority
- Review the effectiveness of management processes and controls to monitor project performance against original objectives and budget, and actions taken to address variations
- Review risk management procedures, including project risk registers to ensure identification, communication and management of risksConsider whether escalation processes are in place to enable poor performance to be identified and managed appropriately. Exceptions are reported to the Corporate Asset Management and Capital (CAMAC) Programme Board

#### Limitations of scope

The scope of our work will be limited to those areas outlined above.

Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given. Our deliverables are limited to those outlined within the scope above.

#### Audit approach

Our audit approach is as follows:

- Obtain an understanding of the procedures followed to manage the Rose Hill Community Centre project. We will prepare and submit and initial questionnaire to the project team. This will be followed up by meetings and review of documentation;
- Identify any strengths, weaknesses or risks; and
- Provide insight into opportunities for improvement.

#### Internal audit team

- Name	- Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Kate Mulhearn	Internal Audit Manager
Jonathan Wilson	Capital Project Services

#### Key contacts – Oxford City Council

- Name	- Title	- Role	- Responsibilities
Nigel Kennedy Ian Brooke	Head of Finance Head of Leisure, Parks and Communities	Audit Sponsor*	Review and approve terms of reference Review draft report Review final report

<sup>\*</sup> The audit sponsor should respond by email to the audit manager to confirm agreement with these Terms of Reference. By agreeing to the document, the responsible manager is confirming the following:

- Appropriateness of scope and any limitation;
- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation; and,
- Agreement with the timetable of reporting within the document and the audit reporting protocol within the Annual Audit plan.

### Other Roles and Responsibilities - Oxford City Council

- Name	- Title	- Responsibilities
David Edwards Jackie Yates	Executive Director – City Regeneration & Housing Executive Director – Organisational Development & Corporate Services	Approve terms of reference; Receive draft and final reports
Peter Sloman	Chief Executive	Receive final report

## Appendix 2 – Questionnaire Responses

#### Responses provided by:

Nicky Atkin - Oxford City Council: Procurement

Jane Lubbock - Oxford City Council: Procurement Lead

Caroline Wood - Oxford City Council: Procurement

Ian Brooke - Oxford City Council: Project Sponsor

Emma Burson - Oxford City Council Finance Lead

Nick Twigg - Oxford City Council: Internal Project Manager

Mike Davey - The Clarkson Alliance: External Project Manager

Project Team members were nominated by Nigel Kennedy, Oxford City Council, Director of Finance

## Appendix 3 – Meetings with the Project Team

Meetings with Project Team Members:

Monday 8 December 2014

Nicky Atkin and Jane Lubbock

Nick Twigg

Mike Davey

Tuesday9 December 2014

Ian Brooke

Emma Burson

Stephen Clarke (HRA Funding Profile)

## Appendix 4 - Limitations and responsibilities

#### Limitations inherent to the internal auditor's work

We have undertaken the review of the Rose Hill Community Centre, in accordance with the scope outlined within the Terms of Reference, subject to the limitations outlined below.

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. 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

Our assessment of controls is for the period specified only. 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 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 endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



In the event that, pursuant to a request which Oxford City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Oxford City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Oxford City Councilagrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC,Oxford City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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OXFORD CITY COUNCIL

To: Audit & Governance Committee

Date: 23 April 2015

Item No:

Report of: Head of Finance

Title of Report: Progress on Implementation of Audit Recommendations

#### **Summary and Recommendations**

**Purpose of report**: To report progress on the implementation of internal and external audit recommendations.

Key decision: No

**Executive Lead Member:** Councillor Ed Turner

Policy Framework: Corporate Plan – Efficient, Effective Council

**Recommendation(s):** The Audit and Governance Committee is asked to note progress with the recommendations listed in Appendix A.

**Appendix A** – Internal and External Audit Recommendation Tracker

#### **Background**

- The outcomes of all internal and external audit reports are reported to this Committee. Each report includes recommendations or agreed actions, a summary of those recommendations which remain outstanding together with updated management responses is provided in Appendix A.
- 2. Each recommendation is marked with a % complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 25% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have not yet exceeded their original expected completion date are also marked red. Those recommendations that will be completed up to one month later than their original expected completion date are also marked as amber.

3. Any recommendations that were noted as 100% complete at the last meeting of the Audit and Governance Committee have been removed from the tracker

#### **External Audit Recommendations**

4. There are no new audit recommendations raised since the last report. The Council's Housing Benefit Subsidy for 2013/14 has been confirmed by the Department of Work and Pensions as £65.774 million. This is an increase of £115k on the original audited claim submitted due to additional sampling and subsequent testing by Ernst and Young, which had a positive effect on the Council's claim.

#### **Internal Audit recommendations**

- 5. There have been three new Internal Audit reports finalised since the last meeting of the Audit and Governance Committee:
  - a. Discretionary Housing Payments Low risk rating Two low risk recommendations relating to the time taken to process a DHP application and the length of time taken to deal with appeals.
  - b. Housing Rents Medium risk rating One medium risk and five low risk recommendations were identified. The medium risk recommendation relates to the timeliness of income reconciliations, and the low risk recommendations relate to refund reconciliations, processing new tenancies, right to buy processing and valuation and arrears recovery.
  - c. Sports Pitch and Facility Bookings Medium risk rating Four medium risk and three low risk recommendations were made. The medium risk recommendations relate to invoice accuracy, segregation of duties, banking of cash and cheques and compliance with Financial Regulations. The low risk recommendations relate to outstanding debt, invoicing of sports bookings and online payments.
- 6. There are two recommendations on the Internal Audit tracker that are not 100% complete and have passed their forecast completion date, the status of these is as follows:
  - a. Community Centres and Associations -
    - i. 18 of the 19 Community centres have an agreement in place
    - ii. The review of the process for repairs and maintenance is in progress but not yet finalised.
- 7. There are eight Internal Audit recommendations that are being reported as 100% complete and will be removed from the next report.
- 8. There are thirteen Internal Audit recommendations that are not yet complete, but have not yet exceeded their forecast completion date. Progress is being made on each of these recommendations and it is

expected that they will all complete in accordance with their expected dates.

9. As previously reported there has been an overall improvement in the outcome of our internal audit reviews over the last two years, with the number of low risk audits increasing significantly, this is an encouraging direction of travel. There have been three medium risk audits this financial year, they are, Business Continuity Planning, Housing Rents and Sports Pitch Facility Bookings. The recommendations picked up in these reports are areas that have not been audited previously. The table below details the percentage of reports and their risk ratings.

	14	/15	13	/14	12	/13	11/	/12	10/11	
Risk	No of	% of	No of	% of	No of	% of	No of	% of	No of	% of
Rating	reports reports		reports reports		reports	reports reports		reports reports		reports
High	0	0%	1	8%	1	10%	1	7%	2	15%
Medium	3	43%	0	0%	3	30%	9	60%	8	62%
Low	4	57%	12	92%	6	60%	5	33%	3	23%
	7		13		10		15		13	

10. Alongside the reduction in risk rating the number of recommendations has also reduced and any recommendations made are now being dealt with in a much timelier manner. The use of the audit tracker and reporting to the Audit & Governance Committee has increased the focus placed on recommendations and ensured they are dealt with more swiftly.

#### Financial Implications

11. Whilst this report is primarily for noting there is the potential that financial implications could arise for the Council if recommendations are not implemented and audit have highlighted areas of risk or areas for improvement.

#### **Legal Implications**

12. There are no legal implications arising from the recommendations in this report.

#### **Equalities Impact**

13. There are no Equalities implications arising from the recommendations in this report.

#### Climate change/environmental impact

14. There are no Climate Change implications arising from the recommendations in this report.

#### Name and contact details of author:

Anna Winship
Financial Accounting Manager
Telephone: (01865) 252517
awinship@oxford.gov.uk

Background papers: None



Re	ef	Review	Review Date	Finding	Risk Rating	Risk	Updater	Owner	Due Date	Forecast Completion Date	% Complete	
Ext	ternal	Audit										
	_	Annual Certification Report		Despite sample checks being completed by benefits staff throughout the year errors are still being identified. Stronger analysis needs to be completed between the type and number of errors being found, the reasons identified and how officers and members can take assurance that the situation will be improved in the future. At present there is no clear evidence of the effectiveness of these checks five the high number of errors still being detected		A thorough internal assessment will be completed of the effectiveness of the checks being made by the benefits team and the continued prevalence of specific types of errors	Pauline Hull	Pauline Hull	30/4/15		75	A thorough internal assessment will be completed of the effectiveness of the checks being made by the benefits team and the continued prevalence of specific types of errors
		Annual Certification Report		Year on year the same errors are being identified by EY as part of testing	ŭ	A sample of 40+ testing will be selected early by EY in anticipation of finding errors which have consistently been found in recent years. This will help reduce some of the pressure on council staff towards the end of the audit	Pauline Hull	Pauline Hull	30/4/15		75	A sample of 40+ testing will be selected early by EY in anticipation of finding errors which have consistently been found in recent years. This will help reduce some of the pressure on council staff towards the end of the audit
406		Annual Certification Report	Feb 2015	Completion of workbooks by Council staff needs to be improved before being passed to EY for testing		Workbooks need to be properly prepared with a clear audit trail supporting the claim value for each case selected. The team will be better resourced to complete the necessary administration on the workbooks	Pauline Hull	Pauline Hull	30/6/15		75	Agreed that there were specific issues around the data entry of cell numbers against the calculation lines and that the team is now better resourced to complete the necessary administration on the workbooks
		Annual Certification Report	Feb 2015	Continue to work on implementation of the 2012-13 recommendations	High	Agree a plan with EY to ensure how outstanding recommendations from 2013-14 can be implemented	Pauline Hull	Pauline Hull	30/4/15		100	A plan has been agreed with EY to ensure all outstanding recommendations are implemented
		Financial Statements Audit	·	Service expenditure and income include Direct Services costs and recharges which grosses up the reported expenditure and income	Medium	The Council needs to establish effective accounting arrangements that eliminate internal recharges from reported expenditure and income	Anna Winship	Anna Winship	31/3/15		100	A methodolgy has been established to ensure that this is reported correctly in the statement of accounts.
		Annual Certification Report	Feb 2015	Guidance requires that the Risk-based Verification (RBV) policy is reviewed annually. This was not done in 2013-14	Medium	The RBV policy will be reviewed in 2014-15	Pauline Hull	Pauline Hull	30/4/15		100	the policy has now been reviewed
Inte		Audit										
IA5	,	Community Dev, Centres & Associations Audit		of 19 community centres currently has a signed lease agreement. The remaining centres have less formal agreements in place.	Medium	Legally the Council are not covered from liabilities. Lack of clarity over responsibilities.	Angela Cristofoli	Angela Cristofoli	29-Apr-2014		95	Nearly all CCs have an existing agreement in place, awaiting final confirmation on 1.
IA5		Community Dev, Centres & Associations Audit		Some of the community centres contact the repairs and maintenance team directly and have jobs raised on the Uniform system.	Low	Work in which the Council is not responsible is performed. Repairs and maintenance may not be monitored.	Mark Spriggs	Mark Spriggs	1-May-2014		50	A division of responsibility between the Council and Community Associations has been established and also attached to the proposed lease. Monthly meetings between CAN and Property have been organised to help monitor projects, performance and outcomes. Dialogue about the transfer of budget to CAN to increase monitoring and control is on-going
IA6	605	Fraud Risk Assessment		Internal fraud cases are not currently recorded on a system unless they relate to housing benefits or council tax. The investigations team are deemed to have sufficient knowledge to perform risk assessments to enable cases to be prioritised. The detail of the cases is maintained locally by the team.		Internal reported cases will be documented on a centralised system. The existing Northgate system has the functionality to perform this. TimeLine for delivery will be agreed with the Head of ICT and prioritised within the Council's corporate ICT work plan.	Scott Warner	Scott Warner	31-Dec-2014	31-08-2015	70	A corporate fraud case management system has been ordered and installation is due in June 2015. The new system has the capability of securely recording internal fraud cases with view and editing restriciton adjustable to appropriate officers
IA5		Cash and Card Receipts Review		Whilst the Council are moving towards becoming cash free there is no regular monitoring of the cash payments which are being received.		The increase in cash intake during the year to date is not in line with the Council's objective of reducing cash payments; failure to monitor and identify the reasons for increases could result in the Council not being able to put in place appropriate actions to reduce cash payments.	Wendy Edwards	Wendy Edwards	31/3/15		100	This is ongoing, and all areas are being reviewed with a view to reduce cash takings.
		Financial Systems - Fixed Assets		A quarterly reconciliation is carried out between the Fixed Asset Register (FAR) and a number of other systems which hold asset data. Our findings showed that there had been a delay in the reconciliations in Q1, due to the year end activities taking place at this time. Also that the Northgate housing Q1 rec had been done against the manual FAR rather than Agresso FAR.		Ensure reconciliations are carried out with correct systems and in a timely manner	Andrew Friar	Anna Winship	30/10/15		50	Going forward all reconciliations will be against the Agresso FAR. All reconciliations will be carried out within a month of the quarter being reconciled except for Q1 reconciliations which will not be carried out, and Q2 will be a cumulative reconciliation

Ref	Review	Review Date	Finding	Risk Rating	Risk	Updater	Owner	Due Date	Forecast Completion Date	% Complete	
	Financial Systems - Fixed Assets	Feb 2015	We performed a check using data analytics to identify any missing asset references; this identified 16 missing references. These all relate to assets that were uploaded to the Agresso FAR with a nil nominal value which removed them from the main FAR list, while maintaining the individual asset record in the FAR database. Assets must have a nominal value of £1 to appear in the main FAR listing	Low	update all assets held at zero to show as £1	Andrew Friar	Anna Winship	31/3/15		100	The missing asset reference numbers have been provided to the Council. These will be loaded on the system at £1. this will also be considered when uploading other assets in the future
	Housing Benefits	Feb 2015	There has been an increase in the level of Housing Benefit overpayments. The Council's total housing benefit overpayment as at September 2014 was £2.1m, 33% higher than the total at the same time last year. There has been an increase in overpayments due to local authority error, a 60% increase compared to the same time last year. Where overpayments relating to LA error are in excess of specified thresholds no subsidy is payable. The forecast subsidy loss at October 2014 is around £177k		That the processing of housing benefit claims is continually reviewed and mitigating action put in place to reduce the overall level of overpayments specifically with regard to overpayments arising from local authority error on which housing benefit subsidy may be lost	Anne Harvey-Lynch and Pauline Hull	Anne Harvey- Lynch and Pauline Hull	31/3/15			Claimant error- We have increased our resourcing in this area to complete outstanding write-offs. We are working with a company called Akinika to help us target the most collectable debts. This in turn will help us to identify uncollectable debts for write-off and allow us to focus on those where there is some likelihood of recovery.  LA error - this is reported on weekly basis and checks take place to ensure correct classification of overpayments is taking place. Trend data is analysed however to date there has been no specific area of work identified that has led to LA error. We will continue to monitor this weekly to ensure we at least meet the 40% subsidy level but will also endeavour to ensure we fall below the lower threshold
	Housing Benefits	Feb 2015	The Council has housing benefit processing targets of an average of 14 days for new claims and 10 days for changes in circumstances. Targets are no longer set by the Department of Work and Pensions (DWP) however statistics on Local Authority benefit processing times are published on a quarterly basis. The time taken to process housing benefit changes of circumstances has increased compared to prior year, however new claims are being processed more quickly		If change of circumstances are not processed in a timely manner there will be delays in adjusting benefits and increased risk of overpayment. Benefits may not be paid to those who have become entitled	Deborah White	Deborah White	31/3/15		100	We have constantly met our targets in recent months and have put measures into place to recognise a potential overpayment, this work is being carried out by our Pre-assessment team. In addition to this, the workload is monitored more closely and resilience requested as soon as it is needed. Weekly management meetings are taking place so trends can be identified at an early stage and actions taken to improve performance. Current performance processing for new claims and changes of circumstance at 31st December shows we are within target for December, and year to date we are within target for new claims
	Discretionary Housing Payments	March 2015	The Council aims to process any DHP applications within 14 days. The performance monitoring reports show that only 34% of the claims which were quality checked in the year had been processed within this time period		Customers in financial difficulty are waiting extended periods for decisions to be made regarding the outcome of their applications. With no record of when the application forms are received, the Council may not be able to prioritise the applications that were submitted first and inaccurate data may be reported against target processing times	Paul Wilding	Paul Wilding	27/2/15		100	The Council will identify any applications which are approaching 7 days since submission and take action to assign them for processing within the 14 day target. The Council will date stamp application forms when they are received to ensure that the forms can be prioritised.
	Discretionary Housing Payments	March 2015	Appeals are not being dealt with within the target of 7 days, 2 sampled took 28 and 30 days.		Applicants may be in financial need awaiting the outcome of decisions, delays could worsen this	Paul Wilding	Paul Wilding	27/2/15		100	Appeals are now dealt with in accordance to the service standard time frame of 7 days. If the appeal is to take longer the applicant will be notified by letter
	Housing Rents	March 2015	Paris, Northgate and Agresso reconciliations are performed daily, to ensure all systems match and any discrepancies are identified and resolved. A sample of 20 were reviewed and we found that they were carried out an average of 6 days after the day being reconciled.	Medium	There is a risk that rental income may be misstated, aand action to address reconciling items is not taken in a timely manner	Anna Winship	Anna Winship	30/4/15		100	reconciliations are now completed within 3 days fo the day being reconciled. These are also being reviewed on a monthly basis
	Housing Rents	March 2015	Northgate and Agresso are reconciled on a monthly basis for rent refunds. When reconciling items are identified these are sent to the relevant managers but no response is chased up to ensure they are rectified		There is a risk that rental income is misstated and that action to address reconciling items is not taken in a timely manenr	David Watt	David Watt	30/4/15		100	email responses are now being received from managers to confim that they are rectifying the issues

Ref	Review	Review Date	Finding	Risk Rating	Risk	Updater	Owner	Due Date	Forecast Completion Date	% Complete	
	Housing Rents	March 2015	A master list of all new tenancies is maintained in the housing allocations department and is manually updated as required. The details are processed into Northgate and an electronic copy of the tenancy agreement is attached to the Northgate record. It was found that there is no process in place for chekcing that all new tenancies or changes on the manual list have been processed in Northgate		There is a risk that tenancies not set up on Northgate are not identified	Tom Porter	Tom Porter	30/4/15		50	Procedures will be put in place to ensure that the manual list is reconciled to Northgate on a regular basis
	Housing Rents	March 2015	In one case of the 5 completed Right To buy sales tested, one showed that the property had a credit balance remaining on the account		There is a risk that payments are not refunded to former tenants in a timely manner	Damon Venning	Damon Venning	30/4/15		50	The rents team will be added to the distribution list for complete Right to Buys that legal send out on a monthly basis, this will be actioned within the month to resolve credits on the account
	Housing Rents	March 2015	A sample of 5 Right to Buy disposals were reviewed and found that the valuation on one propertiy was over 2 years old.	Low	There is a risk that valuations are out of date therefore proeprties not sold at a fair price	Martin Shaw	Martin Shaw	30/4/15			The Council will ensure that the valuation of al Right to Buy sales is no later than a year before the disposal date
137	Housing Rents	March 2015	The system for reviewing rent arrears has potential gaps, which are: no allowance for identification of tenants who have ceased paymente but are shown in credit and there is vulnerability to unexpected staff absence	Low	There is a risk rent arrers may build up and may not be managed in a timely manner	Damon Venning	Damon Venning	30/4/15		50	All accounts where the team are notified of housing benefit being suspended will be looked at and contact made with the tenant to start recovery procedures if applicable
	Sports pitch and facility bookings	March 2015	A sample of 25 bookings were tested and the findings were: 5 samples had a small difference (less than £10) in the price charged to that published; in 4 samples the VAT charged was incorrect; 2 invoices marked as paid were unable to be proved as being paid; 2 bookings were not actually made but were assumed bookings		Loss of council income and custgomers are invoiced inaccuratley with errors in both price and VAT	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15			All invoices will be raised in Agresso from 1st April 2015. and the team will ensure that the fee sheet for sports bookings includes Net, VAT and Gross amounts to eliminate errors.
	Sports pitch and facility bookings	March 2015	One member of staff is responsible for many tasks and there is a lack of segregation of duties in the booking, invoicing and payments process	Medium	There is a risk of fraud or error which could lead to a loss of income. Operational issues may arise as a result of loss of key members of staff	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15			Invoices will be raised in Agresso from 1st April therefore removing the need for collection of payment at the depot. There will be segregation of taking bookings, invoicing and receipt of payments
	Sports pitch and facility bookings	March 2015	a sample of 5 banking sheets were tested and agreed to the bank statements and the following was found: 1 of the sample had an amount on the banking sheet which did not agree to the bank statement; in one sample the banking sheet showed a value of approximatley £1,800 in cash which had not been collected by Jade (but was rectified a few days later)		The Banking form is not accurately completed leading to variances in cash received compared to what is expected. A build up of cash at sports booking office increasing the risk of loss due to theft	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15			With the introduction of Agresso invoices, and signposting of payments via normal routes this should negate the need to collect cash and cheques at the depot
	Sports pitch and facility bookings	March 2015	The sports bookings team do nto use Agresso for invoicing, the alternative procedure being used has not been agreed by the Head of Finance	Medium	Non-compliance with the Council's financial regulations	Emma Burson	Emma Burson	30/4/15		50	Agresso will now be used to invoice for sports bookings. A guidance note will be drafted and approved by the Head of Finance
	Sports pitch and facility bookings	March 2015	Debt collection procedures are not robust, and not detail of action taken to recover debts is logged. A sample of 5 outstanding debts were tested and all were over 150 days old		Appropriate action required for debt recovery is not taken, or documented leading to a loss of income	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15			Invoices raised in Agresso will then be collected centrally by Finance. Training will be provided to Parks Support Officer to enable them to run reports directly from Agresso
	Sports pitch and facility bookings	March 2015	Ther is no way of confirming that all bookings have been invoiced. All bookings are logged in the bookings spreadsheet which is in a calendar format and there is nothing to indicate that these have been invoiced		Booking are not invoiced which could lead to a loss of income	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15			The use of a booking software will be investigated and will form part of a wider review of online booking across the Council's services. Using Agresso to raise invoices will ensure that all booking are invoiced timely and accuratley
	Sports pitch and facility bookings	March 2015	Sports bookings can be made on line, but because the reference number is not in line with those identified on the system it is difficulate to allocate the funds against the sports booking withough confirmation from the customer		Payments by cash and cheque increase risk of loss or theft. Efficiencies available through increase use of electronic online payment options are not achieved.	Emma Burson & Ed Bonn	Emma Burson & Ed Bonn	30/4/15		50	Invoice being raised on Agresso will allow online payments to be allocated against invoices.

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## Agenda Item 11



To: Audit & Governance Committee

Date: 23<sup>rd</sup> April 2015

Report of: Head of Finance

Title of Report: Investigation Team Update

#### **Summary and Recommendations**

#### Purpose of report:

1. To report to Members the activity and performance of the Investigation Team for the period 1 April 2014 to 31 March 2015, and the plans for the development of the Investigation Service going forward.

Key decision Yes

**Executive lead member:** Councillor Ed Turner

Policy Framework: None

Recommendation(s): That the report be noted

#### **Appendices**

Appendix 1 – Internal Investigations – Exempt from publication

#### **Background**

The remit of the Investigation Team is to protect Oxford City Council
against fraud through prevention, detection, deterrence and redress.
Minimising losses through fraud provides increased assurance that
resources within the Council are being used for their intended purpose and
that public funds are protected.

#### **Performance**

2. There are two Service Performance Indicators which are used to track performance on a monthly basis. Performance against these targets for the financial year ending 31<sup>st</sup> March 2015 is shown in the table below.

Table 1 :Investigations Team Performance for the Financial Year 2014/15										
Measure	Annual Target	Achieved	Comment							
Number of returned Social Housing dwellings through civil and criminal proceedings.	20	15	<ul> <li>The performance is below target for a number of reasons</li> <li>Staffing issues</li> <li>Lower than anticipated number of returned properties in tenancy amnesty</li> <li>However, there are 14 properties under notice or with Legal Services within Law and Governance pending repossession</li> </ul>							
Number of successful outcomes, increasing revenue for Council Tax and Business Rates	240	130	This was a new area of work for team in 14/15 and activity increased in second half of year.  Increased Revenue value £258,777  £58,187 additional NNDR identified for 2015/16							

The second target in the above table was set based on data held from previous years. The value of increased Council Tax and Business Rates income arising from investigation activity surpassed expectations and is a better measure of performance and will be used going forward.

3. The total value of losses identified, income generated, and savings achieved by the Investigation Team over the year was £2,608,700 shown in the table below

Table 2: 2014/2015Losses identified, income generated, savings made						
	£'s					
Housing Benefit Overpayments **	617,600					
Council Tax Reduction Scheme Overpayments	108,100					
Housing Benefit savings (using 32 week multiplier) **	773,500					
Council Tax Reduction Scheme savings (using 32 week multiplier)	77,700					
Other Welfare Benefits	2,000					
Council Tax Discount / Exemptions	121,900					
Non Domestic (Business) Rates Reliefs / Exemptions	137,000					
Recovered Properties (x Cost of Temp Acc @ 18,000 pa)	270,000					
Stopped Right to Buy Applications	385,000					
National Fraud Initiative	3,400					
Financial Investigations	112,500					
Administrative Penalties & Profit Orders	9,100					
TOTAL	2,608,700					

<sup>\*\*</sup> With effect from February 2015 welfare benefit investigations will no longer be undertaken by the Council

4. Despite issues including new staff undergoing training, protracted staff absence, and the resource intensive transfer of Housing Benefit cases to the Department for Work and Pensions, it is felt that performance against the service plan targets was good.

- 5. Other areas of activityundertaken during the year included:
  - a. 28 cautions and 5 Administrative Penalties administered in respect of Housing Benefit and / or Council Tax Reduction Scheme offences.
  - b. 1 Profit Order from a social housing sublet fraud.
  - c. 18 successful prosecutions within the year, all of which had press releases issued and associated publicity. The Team will continue to publicise every conviction in order to raise awareness and to act as a deterrent.
  - d. 5 Right to Buy applications stopped by the Investigation Team.

#### **Staffing**

- 6. The Investigation Team has been restructuredfollowing the introduction of the Single Fraud Investigation Service (SFIS) early in 2014. The permanent establishment is 5.6 FTE
- 7. Following the successfulbid submitted in respect of the Fraud and Error Reduction Incentive Scheme (FERIS)additional fixed term staff are being recruited to deliver the project which is explained in more detail below.

#### Single Fraud Investigation Service Update

- 8. From 1<sup>st</sup> February 2015, the responsibility for investigation of Housing Benefit fraud in Oxford was transferred to the Department for Work and Pensions. One member of the team transferred to the DWP under TUPE like arrangements. The transfer involved secure electronic and clerical migration of cases after liaison with the DWP project team, and local DWP contacts. Service Level Agreements for the future exchange of informationhave been agreed. The process was resource intensive but was managed successfully and the transfer took place as scheduled.
- The Team retained a number of ongoingHousing Benefit investigations which they will see through to conclusion. Legal powers to investigate Housing Benefit fraud will not be removed from local authorities until March 2016.

## Department for Communities and Local GovernmentGrant (DCLG) Funding / Fraud Hub

- 10. The first tranche of the £407,000 grant funding from DCLG was received in December 2014.
- 11. Implementation plans were devised in January and a number of actions have taken place to move the project forward. After a procurement exercise, Intec for Business wasawarded the contract to provide the data warehouse &case management systems. Implementation of the system is due in June 2015.
- 12. The systems include "Single View of Debt" functionality which is planned for utilisation in debt recovery. The data warehouse system also includes integrated credit reference agency searching which will assist with investigating and risk profiling match results.
- 13.4 Fixed terminvestigation staff together with a part time Legal Officer will be recruited by August 2015 to deliver the project.

#### Fraud and Error Reduction Incentive Scheme (FERIS)

14. The Council submitted a bid for £14,000 to the Department for Work and Pensions in relation to the FERIS scheme. The Council was notified that it had been successful in February 2015.

#### **Working With Other Organisations**

- 15. Oxfordshire County Council were successful in their £81k bid to DCLG and were awarded funding based on a link with the City bid. The aim is for the City Investigation Team to provide an investigation resource to the County to tackle high risk areas that have not previously been addressed, such as Social Care. Liaison meetings with the County have taken place and training for City staff in County processes and procedures is due to take place in the near future.
- 16. Further work with the County Council is underway and the option for the Investigation Team to conduct the Single Person Discount review exercise, currently undertaken by Capita, is being considered. The data warehouse would be used to facilitate this and the exercise could be conducted at a county wide level. Legal issues, cost benefits and deliverability are being discussed before a decision is made to proceed.
- 17. Liaison meetings with South Oxfordshire and Vale of White Horse District Councils have taken place for future joint working arrangements to provide resources for corporate investigation work in their respective districts. High risk areas identified for investigation include Council Tax discounts, Non Domestic Rates, and Council Tax Reduction Scheme cases. The previous partnership working arrangement with South and Vale identified £116,000

- in overpaid benefits, and saved the councils from paying out a further £66,700 in fraudulently claimed benefits.
- 18. South and Vale District Councils have also requested that Oxford City Council carry out work on FERIS following their successful bid for £17,000 from the DWP.
- 19. The implementation of the Intec Data Warehouse system will not only provide a valuable datamatching resource for the Council but also all further marketing of the Investigation Team Services with County, South and Vale District Councils, other Oxfordshire Districts and Registered Social Landlords and so move the Council further forward in establishing the concept of a Fraud Investigation Hub in Oxfordshire County.

#### Other developments

- 20. The Identification Document scanner software was rolled out across a number of service areas including Human Resources, Customer Services and Housing. Since its implementation in June 2014, 3000 identity documents have been scanned, the majority have which have been verified as genuine providing confidence and assurance that only those entitled to access a Council service are doing so. The new software features a user intuitive interface, better reliability, a workflow document authentication process for dealing with suspicious documents and the ability to scan and verify UK driving licences. The Human Resources department now has an ID scanner within the service to help ensure that every new Council employee provides authentic documents, and has the right to work in the UK.
- 21. The team contributed towards the development of the Corporate Smartphone App which now features the ability for members of the public to report suspicions of fraud via the app. The facility went live in January 2015 but no referrals have yet been received via this medium. Since its release in December 2014, there have been 1022 downloads of the app from the iTunes and Android stores.

#### **Internal Investigations**

22. In the financial year, there were 4 investigations completed by the Team involving members of staff. One no longer works for the Council, one was issued with a Final Written Warning, one concluded in no action being taken against the individual, and the other resulted in a warning letter being issued to a member of the public. See Appendix 1 for further information.

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#### **Right To Buy Applications**

24. By the beginning of the 2014/15 financial year, a due diligence process had been developed within the Team in respect of Right to Buy

- applications. The aim of the process is to protect the Council against money laundering.
- 25. The Proceeds of Crime Act makes it clear that it is not permissible to accept that an applicant's solicitor has conducted the standard of checks required to verify the source of funds used to purchase a Council property.
- 26. Of the 83 Right to Buy applications received, 25 were from customers in receipt of Housing Benefit at the time of application, or within six months of making the application. These were considered higher risk cases and were all therefore subject to full due diligence checks.
- 27. From 1<sup>st</sup> April 2015 all Right to Buy applications submitted to the Council are subject to the full due diligence checking process ensuring an enhanced level of protection against money laundering is in place for these high value transactions.

#### **Proceeds of Crime (POCA)**

28. The partnership arrangement with the Financial Investigation Service of Slough Borough Council remains active with bank accounts frozen whilst criminal convictions progress to conclusion. The previously reported value identified for recovery from frozen bank accounts was £115,000, but due to the accidental death of a customer shortly after being convicted, this figure reduced to £85,000. However, bank accounts belonging to another customer have since been frozen with £27,500 identified for recovery. This brings the total identified for recovery through Proceeds of Crime legislation to £112,500.

#### **Legal Implications**

29. The continuing work of the Investigation Service, coupled with the Council's Avoiding Bribery, Fraud and Corruption, Whistle blowing and Money Laundering policies and proceduresgive assurance that the Authority is compliant with the Bribery Act 2010, the Money Laundering Regulations 2007 and the Proceeds of Crime Act 2002. Failure to adhere to the Policies would impact on the legal and reputational risk to the Council.

#### **Financial Implications**

30. The budgeted net cost of the team excluding income from the Housing Revenue Account is £220,370 for 2015/16 and the team are charged with making savings and income to at least recover these costs as an indication of value for money. This will be achieved by using the newly implemented data warehouse to find fraud in all areas of the Councils business and our partner organisations as well as income generation from working with our partners.

#### **Risk Implications**

31. The risk of fraud both from within the Councils business and impacting on the Councils business may be significant. The maintaining of a fraud investigation resource will act as a deterrent to fraudulent activity and the saving; both cashable and non-cashable is likely to more than offset the cost of running the Investigating Team

#### **Environmental Impact**

32. The majority of visits undertaken by staff on the team are done using the Council pool vehicles. All staff are carbon footprint aware and always seek out the most environmentally friendly way of delivering the service.

#### Name and contact details of author:-

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Finance / Corporate Investigation Team

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By virtue of paragraph(s) 2, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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## Agenda Item 12

#### **AUDIT AND GOVERNANCE COMMITTEE**

#### **Thursday 26 February 2015**

**COUNCILLORS PRESENT:** Councillors Fry (Chair), Fooks (Vice-Chair), Darke, Munkonge, Rowley, Seamons and Thomas.

**OFFICERS PRESENT:** Tanya Bandekar (Service Manager, Revenues and Benefits), Nigel Kennedy (Head of Finance), Jeremy Thomas (Head of Law and Governance), Jennifer Thompson (Law and Governance), Anna Winship (Financial Accounting Manager).

**IN ATTENDANCE:** Christopher Dickens (Pricewaterhousecoopers (PWC)), Mick West (Ernst & Young), Alan Witty (Ernst & Young).

#### 40. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Coulter (Councillor Munkonge substituted).

#### 41. DECLARATIONS OF INTERESTS

There were no declarations of interest.

## 42. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2013-14

The Committee considered the report of the Council's external auditor summarising the results of work on Oxford City Council's 2013-14 claims and returns

Mick West introduced the report and explained the key points.

Tanya Bandekar and Nigel Kennedy explained the steps taken to address the points raised in the audit and to reduce the number and value of errors and said:

- The Department of Works and Pensions recalculated subsidy payments based on the audit findings: these penalties were not within the council's or the auditor's control.
- The Council had taken the opportunity of presenting additional cases for testing and had improved checks and documentation prior to the audit, which had reduced the overall error rate.
- Benefit payments of £65 million were made, so the overall error rate was low in value and lower than many comparable authorities.
- Managers were analysing causes of repeated errors; ensuring new staff were fully trained; and working with the auditors and the claimants to reduce errors.

The Committee requested more detail and background to the figures in the report, and comparisons with other local authorities.

The Committee noted the report and the assurance that the recommendations and action were completed. 149

#### 43. AUDIT PROGRESS REPORT 2014-15

The Committee considered the report from the Council's external auditors providing a progress report and an overview of the proposed timetable for the 2014-15 audit.

Alan Witty said that the audit team was fully staffed and had the necessary skills to cope with the complexity of the work. There would be early testing for final accounts and work would be brought forward where possible.

The Committee noted the progress report and timetable for the 2014-15 audit.

#### 44. LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

The Committee considered the briefing paper supplied by the Council's external auditor.

The Committee noted the points set out in the paper, in particular the implications of changes to the deadlines for submission of accounts from 2017/18 onwards.

#### 45. PROTECTING THE PUBLIC PURSE - FRAUD BRIEFING 2014

The Committee considered the briefing supplied by the Council's external auditor.

In answer to questions from the Committee, Mick West and Nigel Kennedy said:

- Queries about the reliability of some of the data had been raised with the Audit Commission who produced the briefing.
- The national fraud report contained a detailed fraud checklist which the Council may wish to use.
- The Department for Work and Pensions had taken on responsibility for all benefit fraud investigation. The Council retained a team of 5.9FTE to cover all other fraud work for this council and take on work for other authorities. The aim was to recover the running costs from insourced work and the money recovered or not paid out as a result of fraud detection and prevention.
- Publicity for individual cases acted as a deterrent. Policies and procedures which took account of opportunities for fraud helped prevent it occurring.
- It may be possible to provide information about other local authorities' successful detection of tenancy fraud.

The Committee noted the briefing.

## 46. INTERNAL AUDIT PROGRESS QUARTER 3 2014/15 - PRICEWATERHOUSECOOPERS

The Committee considered the report of the Head of Finance on behalf of the Council's internal auditors, PWC, setting out progress made in delivering the 2014/15 internal audit plan.

Christopher Dickens introduced the report and along with Nigel Kennedy answered questions. He said that any reports showing medium or high risks would be circulated to the Committee as soon as these were ready.

The Committee noted the report and the progress made on delivering the action plan.

#### 47. PROGRESS ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS

The Committee considered the report of the Head of Finance setting out the progress made on the implementation of internal and external audit recommendations.

Anna Winship introduced the report and answered questions. She said that all community centres and associations now had leases, or licences to occupy, or were in premises run directly by the council.

The Committee noted the report and the changes to the tracker; and asked for a report at the next meeting on agreements with the centres and the council's remaining risks and liabilities.

## 48. RISK MANAGEMENT QUARTERLY REPORTING: QUARTER 3 2014/2015

The Committee considered the report of the Head of Finance giving updates to both corporate and service risks at the end of Quarter 3, 31 December 2014.

Anna Winship introduced the report and answered questions. She said that:

- Business continuity plans were being assessed and tested.
- The corporate risk register showed that service areas risks had reduced.
- There was a definition of 'catastrophic risk' with an associated threshold value. Only the council's treasury management fell into this category because of the value of investments.
- The risk register was regularly reviewed although dates were not always updated. A full review and update of the register was due.

The Committee noted the report.

#### 49. MINUTES OF THE PREVIOUS MEETING

The Committee agreed to approve the minutes of the meeting held on 18 December 2014 as a true and accurate record.

#### 50. DATES AND TIMES OF MEETINGS

The Committee noted the dates and times of future meetings.

The Committee agreed to move the 22 September meeting to the previous week and to move the 21 December meeting to the previous week

The Committee asked for a report on the risks associated with business rates collection and retention, including the work carried out by the Finance Scrutiny Panel.

The meeting started at 6.00 pm and ended at 7.20 pm

