

**OXFORD CITY COUNCIL**

**Internal Audit   
PROGRESS REPORT**

**January 2018/19**

CONTENTS

|  |  |
| --- | --- |
| Progress against internal audit plan | 3 |
| Executive Summary – General Ledger | 5 |
| Executive Summary – Data Analytics | 8 |
| Executive Summary – Capital Projects | 11 |
| Appendices: |  |
| Definitions of assurance | 15 |

PROGRESS AGAINST PLAN

**Internal Audit**

This report is intended to inform the Audit and Governance Committee of progress made against the 2018/19 internal audit plan, which has been approved by Audit and Governance. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

**Internal Audit Methodology**

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

**Overview of 2018/19 work to date**

The following 2018/19 audit reports have now been issued in Final and the executive summaries included in this report:

* Audit 2. Data Analytics
* Audit 5. General Ledger
* Audit 7. Project Management
* Innovate UK Grant Claim
* Capital Pooling Return Grant Claim.

The following two reports have attracted a limited Opinion and therefore have been issued in full separately:

* Audit 6. Accounts Receivable
* Audit 10. Retention
* Audit 12. Fusion.

**We are also presenting separately to this Committee:**

* Follow up of recommendations report.

INTERNAL AUDIT OPERATIONAL PLAN 18/19

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Audit Area | Audit Days | Executive Lead | Planning | Fieldwork | Reporting | Opinion  Design Effectiveness | |
| **Audit 1. Car Parking** | 15 | Stephen Clarke |  |  |  | Substantial | Substantial |
| **Audit 2. Data Analytics** | 15 | Nigel Kennedy |  |  |  | N/A | N/A |
| **Audit 3. ICT Service Desk** | 15 | Helen Bishop |  |  | [Jan 19] |  |  |
| **Audit 4. Risk Management** | 15 | Nigel Kennedy |  |  |  | N/A | N/A |
| **Audit 5. General Ledger** | 12 | Nigel Kennedy |  |  |  | Substantial | Moderate |
| **Audit 6. Accounts Receivable** | 15 | Nigel Kennedy |  |  |  | Moderate | Limited |
| **Audit 7. Project Management (Capital)** | 15 | Helen Bishop |  |  |  | Moderate | Moderate |
| **Audit 8. Members Allowances and Budgets** | 12 | Anita Bradley |  |  |  | Moderate | Moderate |
| **Audit 9. Investment Properties** | 12 | Nigel Kennedy |  |  | [Jan 19] |  |  |
| **Audit 10. Retention** | 12 | Helen Bishop |  |  |  | Moderate | Limited |
| **Audit 11. Customer Service** | 12 | Helen Bishop |  |  | [Jan 19] |  |  |
| **Audit 12. Fusion Partnership** | 15 | Ian Brooke |  |  | [Dec 18] | Moderate | Limited |
| **Audit 13. Companies Oversight Review** | 15 | Nigel Kennedy |  | [Q4] |  |  |  |
| **Audit 14, 15 and 15. Capital Pooling Return, DFG Claim and Innovate UK** | 13 | Nigel Kennedy |  |  |  | N/A | N/A |

EXECUTIVE SUMMARY – GENERAL LEDGER

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| --- | --- | --- |
| EXECUTIVE SUMMARY | | |
|  | | |
| EXECUTIVE SUMMARY | | |
| LEVEL OF ASSURANCE: | | |
| Design | Substantial | There is a sound system of internal control designed to achieve system objectives. |
| Effectiveness | Moderate | Evidence of non compliance with some controls, that may put some of the system objectives at risk. |
| SUMMARY OF RECOMMENDATIONS: | | |

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|  |
| --- |
| BACKGROUND |
| InsertRichText(GetProperty(“Audit.Description”))The Council’s main financial system is Agresso within which fixed asset, general ledger and payroll transactions are recorded. The Council will be upgrading or changing their financial system, part of which is the General Ledger. This change will impact the functionality for parts of the system. There will also be group accounts structures in place to support the accounting for the new companies the Council is the parent company for.  The Council General Ledger system is part of Agresso. The team are responsible for setting out the chart of accounts i.e. setting up and amending the various cost centre and accounts codes on Agresso and processing and approving journals. The team also process and reconcile interfaces from other systems such as Servitor (housing management system), Key2 (vehicle, plant and equipment system), Academy (revenues and benefits system) and the bank file from PARIS (income collection system) with Agresso.  The Council's Constitution sets out the Council's policies and procedures but these are complimented by a plethora of procedure notes relating to different daily, weekly and monthly tasks that the Finance Team are responsible for. Furthermore, the Finance Team run all of the tasks for both the Council and Oxford Direct Services (ODS).  For cost centre testing, we elected to review only two new and closed-down cases for each of Ox, DS and DT because this gave a proportionate perspective of the effectiveness of the control design and control effectiveness. We reviewed two out of 13 (15.4%), two out of 20 (10%), and two out six (33.3%) for Ox, DS, and DT respectively. Similarly for our sampling on new users, we also only tested two cases as there were only three (66.7%) users that had been set up since April 2018.  A review of General Ledger in 2016/17 was performed and reported to the December 2016 Audit Committee which led to a moderate opinion for both design and effectiveness. |
| GOOD PRACTICE |
| InsertRichText(GetProperty(“Audit.Accomplishments2”))During the audit, the following areas of good practice were identified:   * The Council was making sound preparations to incorporate the latest upgrade of Agresso software ('milestone 7') into their live systems. This was subject to discussions between appropriate officers from Finance and IT on the best method of implementing the upgrade but strong provisions (including up to six months to test it) are in place for the Council to ensure it maximises their software capabilities * Procedure notes for adding/amending the chart of accounts were robust. The inclusion of written and visual guidance allows officers to carry out the functions accurately * Monthly reconciliation procedures are completed accurately and on a timely basis, with reviews undertaken by an appropriate officer. Each procedure had supporting documentation/ worked calculations included * Automatic interfaces to/from Agresso are completed successfully but in cases where there is a failure, the appropriate team are notified as such so that transactions can be added manually * The SLA between the Council, ODSL and ODSTL clearly outlines the key services and responsibilities of each party, forming the foundation of an effective relationship.InsertTable(“<Query Perspective=\"Risk\" ID=\"RiskQuery\" Type=\"LeftJoin\"> <Properties>   <Property Mid=\"Risk.Title\" ID=\"Title\" />  <Property Mid=\"Risk.Name\" ID=\"Name\" SortOrder=\"1\"/>  </Properties>  <Criteria>  <CriteriaGroup Path=\"Risk.ScopeState\">  <Criterion Type=\"UidCriterion\">  <Uid Mid=\"ScopeState\" Guid=\"9f0c45c2-4757-48e7-9030-e79f8078ff96\" Id=\"1\" Version=\"1\" />  </Criterion>  </CriteriaGroup>  </Criteria>  </Query>”,”Risk.Objective\Objective.Audit”,”Name”) |
| KEY FINDINGS |
| During our review, the following areas of improvement were identified:   * Of the 20 journals tested, four had differing dates between the master list of journals processed from April 2018 to October 2018 and the original journal form raised (Finding 1 – Medium) * No form for Officers moving to a different department is submitted to the IT Service Team which caused an Officer to receive inappropriate access to many of the General Ledger Agresso functions. IT Service Team accepted approval by the Management Accountant Manager granted six months prior rather than seeking re-approval. Furthermore, no segregation in creating new users and appropriate approval was obtained prior to the user gaining access (Finding 2 – Low) * Of the 19 procedure notes the Finance Team had in practice for General Ledger tasks, eight were over a year old. However, we had confirmation from the Senior Management Accountant that four of these are in the process of or scheduled to be re-written (Finding 3 - Low) * The date was not included in the approval forms of new cost centres (Finding 4 – Low). |
| CONCLUSION |

Overall the Council has moderate controls in place for the General Ledger systems. The establishment of ODS has resulted in Council processes being amended due to the exceedingly high workload, particularly in closing down accounts and cost centres in the Council to re-open them in ODS, and findings were made around the access of users which also can be attributed to lack of clarity where the access is required and for what systems. The Council’s Constitution provides a comprehensive framework for General Ledger and Officer responsibilities in the Finance Team are strongly articulated within the procedure notes. This leads us to conclude that the control design was substantial and control effectiveness was moderate.

EXECUTIVE SUMMARY – DATA ANALYTICS

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| EXECUTIVE SUMMARY |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **SUMMARY OF RECOMMENDATIONS:** | | | | | | | | | | |
| High | 0 |  |  |  |  |  |  |  |  |  |
| Medium | 1 | |  |  |  |  |  |  |  |  |
| Low | 2 | | |  |  |  |  |  |  |  |
| Total number of recommendations: Var(“Set”, “TotalF”, Calculate(Format(“{0}+{1}+{2}”, Var(“Get”,”HF”), Var(“Get”,”MF”), Var(“Get”,”LF”))))  Insert(Var(“Get”, “TotalF”))<i>3 | | | | | | | | | | |
| BACKGROUND: | | | | | | | | | | |
| The Council operates numerous systems such as Agreeso and iTrent for recording its transactions. Agresso is the software used to record accounts payable and accounts receivable transactions. There are also sub-systems, such as Servitor, which feed information into Agresso. iTrent is the Council’s payroll software and it maintains HR records such as tax code and national insurance number of the Council’s employees. Both systems hold a large amount of transactional data, which contains valuable information that provides insight of the control framework of the Council’s main financial system. For the 2018/19 financial year we reviewed three areas, namely:   * Payroll * Accounts Payable * Accounts Receivable.   Data analytics can be a powerful way to undertake 100% testing on a certain line of inquiries, such as verifying whether each employee has a legitimate NI number.  This audit was used to identify potential exceptions to key controls. The output was provided to management to follow up and the results, along with managements' comments are presented to the Audit Committee.  We reviewed the data extracted by the Council for each area. The data was sorted and crosschecked by using internal audit analysis software (IDEA). The anomalies and departures from pre-set parameters highlighted were reviewed and any items that have a straightforward explanation removed. The risks reviewed through the use of IDEA analysis software were as follows:  Payroll   * Payments are made to fictitious staff * Payments are made to staff that have left the organisation * Excessive/duplicate payments are made to staff.   Accounts Payable   * Duplicate payments are made to suppliers/third parties * Payments are made to fictitious suppliers * Payments are not authorised in line with the financial limits and delegated authorities * Invoices are approved that exceed the authorisation limits.   Accounts Receivables   * Invoices are sent to incorrect addresses * Inefficiencies in the customer set up process * Non-payment by customers. | | | | | | | | | | |
| KEY FINDINGS: | | | | | | | | | | |
| InsertRichText(GetProperty(“Audit.Accomplishments2”))   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Area** | **No. of tests planned** | **No. of tests with no exceptions** | **No. of tests with exceptions** | **Data not available / sufficient** | | Payroll | 22 | 20 | 1 | 1 | | Accounts Payable | 12 | 9 | 0 | 3 | | Accounts Receivables | 4 | 2 | 2 | 0 | | **Total** | **38** | **31** | **3** | **4** |   InsertTable(“<Query Perspective=\"Risk\" ID=\"RiskQuery\" Type=\"LeftJoin\">  <Properties>  <Property Mid=\"Risk.Title\" ID=\"Title\" />  <Property Mid=\"Risk.Name\" ID=\"Name\" SortOrder=\"1\"/>  </Properties>  <Criteria>  <CriteriaGroup Path=\"Risk.ScopeState\">  <Criterion Type=\"UidCriterion\">  <Uid Mid=\"ScopeState\" Guid=\"9f0c45c2-4757-48e7-9030-e79f8078ff96\" Id=\"1\" Version=\"1\" />  </Criterion>  </CriteriaGroup>  </Criteria>  </Query>”,”Risk.Objective\Objective.Audit”,”Name”)  The following exceptions were noted from the work performed:  Payroll   * One individual with an invalid national insurance number.   Accounts Receivable   * 14,678 instances of potential duplication of customer accounts (either with the same address or with different addresses).   Details of the exceptions and management response can be found in Appendix I.  We were not able to perform data analytics on the following areas as data/reports were not available:  Accounts Payable   * Retrospective order of which the purchase order authorisation date is after the invoice date * Segregation of duties over purchase order requisition and authorisation * Purchases outside the user's authorisation limits.   Payroll   * Expenses authorised by staff that are above their authorisation levels however there are limitations of what type of expense can be approved which is acceptable. | | | | | | | | | | |
| GOOD PRACTICE: | | | | | | | | | | |
| No exceptions were noted from the following areas:  Payroll   * Unusual activity in expense claims * Duplicate payments to employees * Removal of leavers * Employee transactions with no record in the standing data * Excessive overtime payment * Completeness and accuracy of payroll data: employee reference, name, address, bank detail, date of birth and income tax code.   Accounts Receivable   * Customer payment time * Council reporting capability on bad debt.   Accounts Payable   * Round sum payments * Duplicated payments * Transactions with no supplier code in the standing data * Weekend transactions * Duplication/Fictitious supplier, focusing on the name, bank detail and address. | | | | | | | | | | |
| CONCLUSIONS: | | | | | | | | | | |
| The data analytics undertaken has only identified a small number of issues. There is one instance of an invalid national insurance number and potential duplicates of customer accounts.  There are four tests, which we were not able to carry out due to systems the Council hold not being able to extract reports in the detail required. The Council should review these areas and consider whether new reporting facilities could be implemented. | | | | | | | | | | |

EXECUTIVE SUMMARY – PROJECT MANAGEMENT

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| --- | --- | --- |
| EXECUTIVE SUMMARY | | |
| LEVEL OF ASSURANCE: | | |
| Design | Moderate | InsertRichText(GetProperty(“Audit.Rating\AuditRating.Description”))  <rt>  Generally a sound system of internal control designed to achieve system objectives with some exceptions.  </rt> |
| Effectiveness | Moderate | InsertRichText(GetProperty(“Audit.OperationalEffectiveness\AuditRating.EffDescription”))  <rt>  Evidence of non-compliance with some controls, that may put some of the system objectives at risk.  </rt> |
| SUMMARY OF RECOMMENDATIONS: | | |

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| Total number of recommendations: Var(“Set”, “TotalF”, Calculate(Format(“{0}+{1}+{2}”, Var(“Get”,”HF”), Var(“Get”,”MF”), Var(“Get”,”LF”))))  Insert(Var(“Get”, “TotalF”))<i>4</i> |
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| BACKGROUND: |
| |  | | --- | | InsertRichText(GetProperty(“Audit.Description”))InsertRichText(GetProperty(“Audit.Description”))The Council recognise that capital project management requires a refresh and as part of this are part-way through the process of setting out and implementing new processes (as of September 2018) with the expectation that these will be fully operational by December 2018 (originally July 2018). Key proposals to Council’s CMT include:   * A new Board with well-defined governance and reporting arrangements aligned with corporate approach * A shift from monitoring capital spend to a co-ordinated approach to major development projects across Oxford City * Simplified process: concept, feasibility, technical specification and delivery * Paperwork proportionate to scale of project * Investment upfront to ensure smooth implementation * Well defined project pipeline and funding * Identification and matrix management of skillsets * New development team to build sustainable internal capacity over time * More financial monitoring of projects through monthly budget monitoring.   A business case to establish a Programme Management Office (PMO) was produced in August 2018, and a PMO Manager appointed in September 2018. Using an agile approach (see appendix 2), the aim of the new PMO is to implement new ways of working, encourage collaboration, connecting people and projects together, and encourage quality documentation to support good decision-making. The new PMO will ensure there is a consistent approach to project management across the Council, and offer a central resource for staff to draw upon expertise. Whilst one PMO Manager has been appointed, there is still a vacancy within the team for another PMO Manager.  As at November 2018 there are 50 projects ongoing, with actual spend of £4.5m against £13m current year budget. Only 34.9% of the budget has been spent 70% of the way through the financial year. The status of the 50 projects is detailed below:   * 12 projects in pipeline * 3 in proposal * 10 in feasibility (66.1% budget spent) * 8 in design & technical specification (19.8 budget spent) * 17 in delivery (37.6% budget spent).   Of the 26 projects completed in 2018/19 only 45.4% of the current year budget was spent, and of the 3 projects closed only 40% of planned budget was spent.  As at the time of the audit the new project management processes had not been fully rolled out, and so we were unable to test the process of moving between gateways, including the governance arrangements of the Development Board, or comment on the quality of the paperwork submitted. | |
| GOOD PRACTICE: |
| We noted good practice in the following areas:   * A PMO has been set up to co-ordinate project management across the Council, to ensure there is a consistent approach and to ensure there is a central resource for each project manager to access * Areas for improvement have been captured within the staff workshops held over the Summer and there is evidence that work has commenced to address these issues * There has been an introduction of an online tool for reporting progress on all major projects in the pipeline, at feasibility stage, design and technical specification and delivery. This gives appropriate staff and stakeholders access to the ongoing projects and associated budget and actual spend, and is easier to navigate than the previous excel spreadsheet with the same information * The PMO Manager has started to attend team meetings to discuss the new project management approach, tailoring each meeting to the specific team. It is expected this will be rolled out further in 2019 * The Council is aiming to roll out a Review Group that would review ideas and proposals and business cases before presentation to the Development Board * A Development Board has been established. InsertTable(“<Query Perspective=\"Risk\" ID=\"RiskQuery\" Type=\"LeftJoin\"> <Properties>   <Property Mid=\"Risk.Title\" ID=\"Title\" />  <Property Mid=\"Risk.Name\" ID=\"Name\" SortOrder=\"1\"/>  </Properties>  <Criteria>  <CriteriaGroup Path=\"Risk.ScopeState\">  <Criterion Type=\"UidCriterion\">  <Uid Mid=\"ScopeState\" Guid=\"9f0c45c2-4757-48e7-9030-e79f8078ff96\" Id=\"1\" Version=\"1\" />  </Criterion>  </CriteriaGroup>  </Criteria>  </Query>”,”Risk.Objective\Objective.Audit”,”Name”)  InsertRichText(GetProperty(“Audit.Accomplishments2”))  InsertTable(“<Query Perspective=\"Risk\" ID=\"RiskQuery\" Type=\"LeftJoin\">  <Properties>  <Property Mid=\"Risk.Title\" ID=\"Title\" />  <Property Mid=\"Risk.Name\" ID=\"Name\" SortOrder=\"1\"/>  </Properties>  <Criteria>  <CriteriaGroup Path=\"Risk.ScopeState\">  <Criterion Type=\"UidCriterion\">  <Uid Mid=\"ScopeState\" Guid=\"9f0c45c2-4757-48e7-9030-e79f8078ff96\" Id=\"1\" Version=\"1\" />  </Criterion>  </CriteriaGroup>  </Criteria>  </Query>”,”Risk.Objective\Objective.Audit”,”Name”) |
| KEY FINDINGS: |
| The following key findings have been identified:   * Lessons learnt and closure reports are not consistently completed across each of the teams nor presented to the PMO for quality review or the Development Board for final sign off (medium – finding 1) * The project management approach is not consistent across the Council with the workshops highlighting a lack of clarity of approach, quality of documentation not adequate and gateways not consistently used (medium finding 2) * Training and skill gaps for those undertaking project management was raised as an issue within the workshops. Staff also felt that they did not always have the appropriate capacity to adequately complete a project on top of their substantive post commitments (medium – finding 3) * Consistent underspend against budget of an average 74% over the last 6 years (medium – finding 4). |
| Added VAlue |
| We have conducted a short survey with project management staff currently involved in the capital programme. There were 17 project managers currently working on a project, and 10 (59%) have responded to the survey. The results of this have can be located at appendix 1. |
| CONCLUSION: |
| InsertRichText(GetProperty(“Audit.Conclusion”))Whilst the new project management approach has not been fully rolled out there is evidence that work is underway to complete this. The majority of those staff surveyed were aware that a new approach was in place, but were not fully informed. To address this the PMO Manager has been attending team meetings and refreshing the project management Intranet page to reflect the people involved, processes to take, projects ongoing and the progress made.  As to date there have been no ideas or proposals passed through the first gateway we were unable to review whether the new arrangements are being used effectively. However, the creation of a new PMO ensures additional review of all documentation before it is passed to the Development Board, and the process taken to get there. Consideration should be given to completing an audit in 2020/21 to follow this up.  Workshops were held in the summer to identify improvements to the project management process. It was noted that the summer was not ideal to complete this as the survey highlighted more project managers would have liked to attend. However, a number of issues were identified, and whilst work is ongoing, the issues have not yet been fully addressed. The progress of the task and finish groups should be reviewed by the PMO Manager to ensure all issues have been fully addressed and are in line with the new project management approach.  We have raised four medium findings and reported a moderate design and effectiveness. |

APPENDIX I – DEFINITIONS

| APPENDIX iiI – DEFINITIONS | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| LEVEL OF ASSURANCE | | DESIGN of internal control framework | | OPERATIONAL EFFECTIVENESS of controls | | |
| Findings | Design | Findings | Effectiveness | |
| Substantial | | Appropriate procedures and controls in place to mitigate the key risks. | There is a sound system of internal control designed to achieve system objectives. | No, or only minor, exceptions found in testing of the procedures and controls. | The controls that are in place are being consistently applied. | |
| Moderate | | In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective. | Generally a sound system of internal control designed to achieve system objectives with some exceptions. | A small number of exceptions found in testing of the procedures and controls. | Evidence of non compliance with some controls, that may put some of the system objectives at risk. | |
| Limited | | A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year. | System of internal controls is weakened with system objectives at risk of not being achieved. | A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year. | Non-compliance with key procedures and controls places the system objectives at risk. | |
| No | | For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation’s overall internal control framework. | Poor system of internal control. | Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation’s overall internal control framework. | Non compliance and/or compliance with inadequate controls. | |
| Recommendation Significance | | | | | |
| High | A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently. | | | | |
| Medium | A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action. | | | | |
| Low | Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency. | | | | |

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