

*Internal Audit  
Annual Report  
2011/2012*

Oxford City Council  
May 2012

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<b>Distribution List</b>
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S151 Officer
Chief Executive
Corporate Management Team
Audit and Governance Committee

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

# 1. *Executive summary*

## *Background*

CIPFA's Audit Code of Practice requires that the Head of Internal Audit provides a written report to the Audit and Governance Committee, timed to inform the organisation's Annual Governance Statement. As such, the purpose of this report is to present our view on the adequacy and effectiveness of Oxford City Council's system of governance, risk management and control.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Audit and Governance Committee and statutory officers should look to gain assurance. This report does not supplant the Audit and Governance's responsibility for forming their own view on governance, risk management and control.

This report covers the period to the year ended 31<sup>st</sup> March 2012.

## *Scope*

Our findings are based on the results of the internal audit work performed as set out in the 2011/12 Internal Audit Plan and subsequent amendments approved by the Audit and Governance Committee. All changes have been outlined in our update reports taken to Audit and Governance Committee during the year.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Our internal audit was performed in accordance with CIPFA's Audit Code of Practice. CIPFA's Audit Code of Practice is not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board. As a consequence our work was not designed to comply with the International Standards on Assurance Engagements. Our work was designed to comply with CIPFA's Audit Code of Practice which must be followed for internal audit in local government.

## *Opinion*

Our opinion is based solely on our assessment of whether the controls in place support the achievement of management's objectives as set out in our 2011/12 Internal Audit Plan.

We have completed the program of internal audit work for the year ended 31<sup>st</sup> March 2012 with the exception of the following reviews:

- Year end support (ongoing)
- IT Patching (draft report)
- LAGAN review (draft report)
- Project governance (deferred to 2012/13)
- Repairs and maintenance (deferred to 2012/13)

Our opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in our Annual Internal Audit Plan.

**We have completed the program of internal audit work for the year ended 31<sup>st</sup> March 2012 with the exception of the reviews identified above. Our work identified 4 high, 30 medium and 36 low rated findings. Taken together, based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and / or effectiveness of governance, risk management and internal control.**

The key factors that contributed to our opinion are summarised as follows:

#### **Commercial property**

- 80% of commercial property invoices for new and amended properties that we tested were raised late, increasing recovery risk; and
- The reconciliation of assets on Uniform, the property system, to the Fixed Asset Register had lapsed because of a change in staff.

#### **Collection Fund**

- The Council continues to have large debt balances over 1 year old for both Council Tax and Business Rates. Efforts should be made to review this debt to ensure it is recoverable and the need for write offs should be considered.

#### **Patching review**

- IT support services (including support over patching) has been outsourced to Oxfordshire County Council. A number of reviews over patching have been conducted by the County Council's Internal Audit function. We noted that the focus of these reviews has predominantly been over patching with regards to the operating system. The reviews have covered key risk areas such as governance and change management thoroughly; however they have not included other areas of patching such as key applications and databases. In addition we noted that management at the City Council do not currently have a mechanism in place to receive findings of the reviews in order to formulate responses to areas of risk the City Council may be exposed to.

Our reviews also identified the following issues that should be considered by management:

- Despite the centralisation of the creditors and debtors department, there continues to be differences in the procedures for both areas across different departments. Our use of CAATs to perform work on expenditure transactions identified a number of potential duplicates that may have arisen across the Fleetplan, Agresso and Servitor systems. In the areas of income, there continues to be separate processes for raising sundry income in addition to trade waste, car parking and commercial property. This has led to instances of income being raised late in these areas.
- Our review of a number of the Council's contracts identified that more work is required to ensure that contracts are robustly set up, managed and monitored. We noted that improvements could be made in these respects for the Council's ICT, Building Maintenance, Groundworks and Leisure contracts.

A summary of the key findings are described in further detail on pages 3-4.

On pages 6 and 7 we show the direction of travel for both individual review areas and for the number of audit recommendations in each risk category (critical, high, medium and low). Both show very positive signs on the overall control environment at the City Council.

For all areas reviewed in the year, the rating this year was either better or the same as last year. The number of internal audit findings and recommendations has reduced considerably with a total number of 70 findings in 2011/12 compared to 162 in the previous year. Although the mix and focus of our internal audit work have differed between years and therefore results may not be directly comparable, the significant reduction in findings, particularly in the high rated findings from 17 to 4, should be source of considerable comfort.

## *Acknowledgement*

We would like to take this opportunity to thank all audit sponsors, heads of service and members of the Audit and Governance Committee for their co-operation and assistance provided during the year.

## 2. Summary of findings

Our annual internal audit report is timed to inform the organisation’s Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description	Detail															
<p><b>Overview</b></p> <p>We completed 24 internal audit reviews. This resulted in the identification of <b>0 critical, 4 high, 30 medium and 36 low</b> risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<ul style="list-style-type: none"> <li>• Our audit plan was scoped to address the Council’s key risks and strategic objectives. We mapped each review to these areas in our 2011/12 Internal Audit plan</li> <li>• We have completed our internal audit plan in line with the set timescales and have supported the Council with their year-end close down procedures and in their assessment of fraud. We have delivered training on fraud awareness in year.</li> <li>• Our plan included seven “value enhancement” reviews and we have mobilised specialists in the areas of ICT, housing and project management.</li> </ul>															
<p><b>Internal Control Issues</b></p> <p>During the course of our work we identified four high risk issues which have been outlined in the next cell. Given the materiality of these systems (Collection Fund and Commercial Property) to the Council, you should consider inclusion of these areas in your Annual Governance Statement.</p>	<p>The following high risk areas have been raised in 2011/12:</p> <ul style="list-style-type: none"> <li>• <u>Collection Fund</u></li> </ul> <p>The Council continues to have large debt balances over 1 year old for both Council Tax and Business Rates. Efforts should be made to review this debt to ensure it is recoverable and the need for write offs should be considered. At the time of audit, the aged debt position of the Collection Fund was as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Levy</th> <th style="text-align: center;">Total debt (£m)</th> <th style="text-align: center;">Debt over 1 year old (£m)</th> <th style="text-align: center;">% of debt over 1 year old</th> <th style="text-align: center;">Movement since prior year</th> </tr> </thead> <tbody> <tr> <td>Council Tax</td> <td style="text-align: center;">4.5</td> <td style="text-align: center;">3.2</td> <td style="text-align: center;">71%</td> <td style="text-align: center;">-0.1million</td> </tr> <tr> <td>NNDR</td> <td style="text-align: center;">3.6</td> <td style="text-align: center;">1.8</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">+0.5million</td> </tr> </tbody> </table> <p>It should be noted that of the total debt, £0.5million of Council Tax and £0.1million of NNDR debt are currently under charging orders/instalments and therefore will be recovered.</p> <ul style="list-style-type: none"> <li>• <u>Commercial Property</u></li> </ul> <p>80% of commercial property invoices for new and amended properties that we tested were raised late, increasing recovery risk; and</p> <p>The reconciliation of assets on Uniform, the property system, to the Fixed Asset Register had lapsed because of a change in staff.</p>	Levy	Total debt (£m)	Debt over 1 year old (£m)	% of debt over 1 year old	Movement since prior year	Council Tax	4.5	3.2	71%	-0.1million	NNDR	3.6	1.8	50%	+0.5million
Levy	Total debt (£m)	Debt over 1 year old (£m)	% of debt over 1 year old	Movement since prior year												
Council Tax	4.5	3.2	71%	-0.1million												
NNDR	3.6	1.8	50%	+0.5million												

	<ul style="list-style-type: none"> <li>• <b>IT Patching</b> IT support services (including support over patching) has been outsourced to Oxfordshire County Council. A number of reviews over patching have been conducted by the County Council's Internal Audit function. We noted that the focus of these reviews has predominantly been over patching with regards to the operating system. The reviews have covered key risk areas such as governance and change management thoroughly; however they have not included other areas of patching such as key applications and databases. In addition we noted that management at the City Council do not currently have a mechanism in place to receive findings of the reviews in order to formulate responses to areas of risk the City Council may be exposed to.</li> </ul>
<p><b>Other issues</b> Other issues were identified within the organisation's governance, risk management and internal control, which relate to consistent application of procedures, potential for duplicates and contract management and monitoring.</p>	<p>Our reviews identified the following issues that should be considered by management:</p> <ul style="list-style-type: none"> <li>• Despite the centralisation of the creditors and debtors department, there continues to be differences in the procedures for both areas across different departments. Our use of CAATs to perform work on expenditure transactions identified a number of potential duplicates that may have arisen across the Fleetplan, Agresso and Sevitor systems. In the areas of income, there continues to be separate processes for raising sundry income in addition to trade waste, car parking and commercial property. This has led to instances of income being raised late in these areas.</li> <li>• Our review of a number of the Council's contracts identified that more work is required to ensure that contracts are robustly set up, managed and monitored. We noted that improvements could be made in these respects for the Council's ICT, Building Maintenance, Groundworks and Leisure contracts.</li> </ul>
<p><b>Good practice</b> We also identified a number of areas where few weaknesses and / or areas of good practice were identified.</p>	<p>The following reviews were classified as low risk for 2011/12:</p> <ul style="list-style-type: none"> <li>• Debtors;</li> <li>• Payroll;</li> <li>• Housing Benefits;</li> <li>• Housing Rents;</li> <li>• Risk Management;</li> <li>• Performance Improvement; and</li> <li>• Financial Planning</li> </ul>

# ***3. Internal Audit work conducted***

## ***Introduction***

Our internal audit work was conducted in accordance with our letter of engagement, CIPFA's Audit Code of Practice and the 2011/12 Internal Audit Plan.

The table below sets out the results of our internal audit work and implications for next year's plan. The direction of travel is also analysed so management can consider whether they should take action to reverse a trend or address stagnation.

We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.








*Results of individual assignments*

Audit unit	Report status	Direction of Travel	Report classification	Number of findings			
				Critical	High	Medium	Low
General Ledger	Final	↔	Medium Risk	0	0	2	3
Debtors	Final	↑	Low Risk	0	0	1	2
Creditors	Final	↔	Medium Risk	0	0	4	2
Payroll	Final	↑	Low Risk	0	0	0	2
Collection Fund	Final	↑	Medium Risk	0	1	0	3
Cash Collection & Establishment	Final	↔	Medium Risk	0	0	3	3
Treasury Management	Final	↑	Low Risk	0	0	1	3
Housing Benefit	Final	↑	Low Risk	0	0	1	2
Housing Rents	Final	↔	Low Risk	0	0	1	2
Risk Management	Final	↑	Low Risk	0	0	1	2
Performance Improvement	Final	No previous review performed	Low Risk	0	0	1	0
Car Parking	Final	↑	Medium Risk	0	0	6	2
Financial Planning	Final	No previous review performed	Low Risk	0	0	1	2
Commercial Property	Final	No previous review performed	High Risk	0	2	1	2
Trade Waste	Final	↑	Medium Risk	0	0	3	5
Homelessness	Final	No previous review performed	Medium Risk	0	0	2	1
IT Patching	Draft	No previous review performed	Low Risk	0	1	1	0
LAGAN Implementation	Draft	No previous review performed	Low Risk	0	0	1	0
			<b>Total</b>	<b>0</b>	<b>4</b>	<b>30</b>	<b>36</b>

In addition we have carried out the following value enhancement reviews where no risk rating has been provided. No significant issues were noted in these reports for consideration in the Annual Governance Statement:

- Standard Operating Procedures
- Year end support
- Procurement Computer Assisted Audit Techniques
- ICT Contract Review
- Contract Assurance
- Fraud Awareness Training
- HRA Business Plan Review

### *Direction of control travel*

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>		
		<i>2011/12</i>	<i>2010/11</i>	<i>2009/10</i>
Critical		0	0	0
High		4	17	3
Medium		30	93	79
Low		36	52	53
<b>Total</b>		70	<b>162</b>	<b>135</b>

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable.

Management should look to concentrate on those areas of stagnant performance (e.g. General Ledger and Creditors) to and action to ensure that controls in these areas are improved. Actions may include raising awareness, training, increasing compliance checks or improved escalation processes.

### *Comparison of planned and actual activity*

We have provided a comparison of the planned and actual activity for the 2011/12 plan by review. A total of five additional days were charged to the Council in year because of delays in management providing responses and resource to audits. We will look to revisit our protocol with the Council in 2012/13 in order to minimise additional fees going forward.

Two reviews (repairs and maintenance and project governance) have been deferred from the 2011/12 plan to 2012/13. These are value enhancement reviews and therefore will not impact on our ability to provide a year-end opinion on Internal Control.

<b>Audit Unit</b>	<b>Audit Type</b>	<b>Budgeted days</b>	<b>Actual days</b>	<b>Reasons for variance</b>	
General Ledger	Value protection	10	10	-	
Debtors		10	10	-	
Creditors		10	11	Overrun due to delays in management response	
Payroll		10	10	-	
Collection Fund		10	10	-	
Cash Collection		10	10	-	
Treasury Management		5	5	-	
Housing Benefit		10	10	-	
Fixed Asset Testing		10	10	-	
Housing Rents		5	5	-	
Risk Management and Performance Monitoring		15	15	-	
Law and Governance		5	0	Review removed from 11/12 plan due to change in risk profile	
Standard Procedures Review	Value enhancement	0	2	Review included at request of management during 2011/12 year	
Homelessness	Value protection	5	5	-	
Car Parking		5	5	-	
Trade Waste		5	5	-	
Commercial Property Income		5	5	-	
Budgetary Control		10	10	-	
Year end Support		10	10	-	
Procurement CAATS		Specialist/value enhancement	5	7	Overrun due to delays in management response
IT Patching	7		9	Overrun due to delays in management response	
LAGAN	10		8	Reduction in days allocated due to appointment of external consultant	
ICT Contract Review	8		12	Increase of days required to reflect specialist resource	
Contract Assurance	10		10	-	
Project Governance	5		0	Review deferred to 2012/13	
Fraud Awareness	5		5	-	
HRA Cashflow	10		7	-	
HRA Repairs and Maintenance	0		0	Review included at request of management. Review subsequently deferred to 2012/13	
Follow Up			10	10	-

Audit Management		30	30	-
TOTAL		<b>250</b>	<b>246</b>	

## 4. Follow up work conducted

### Introduction

Within the Annual Audit Plan for 2011/12, 10 days were assigned for following up recommendations raised during previous years in order to assess whether agreed actions had been implemented by management. Recommendations raised in previous reports were followed up within the 2011/12 scope. The table below summarises the follow up work performed.

### Results of follow up work

Audit unit	Number of Previous agreed actions	Status of agreed actions			
		Implemented	Partially Implemented	Outstanding	Not applicable
General Ledger	6	2	0	3	1
Debtors	12	9	0	3	0
Creditors	12	7	0	5	0
Payroll	3	2	0	1	0
Collection Fund	8	4	0	4	0
Cash Collection & Establishment	9	3	0	5	1
Treasury Management	10	6	3	1	0
Housing Benefit	2	1	0	1	0
Housing Rents	3	1	0	2	0
Risk Management	8	5	0	3	0
Car Parking	7	2	4	1	0
Trade Waste	12	5	2	5	0
<b>TOTAL</b>	<b>92</b>	<b>47</b>	<b>9</b>	<b>34</b>	<b>2</b>

We recommend that further work is conducted by Oxford City Council to ensure all previously agreed recommendations are implemented at the earliest opportunity.

# *Appendices*

# ***Appendix 1: Limitations and responsibilities***

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

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and Audit and Governance Committee subject to the limitations outlined below.

### ***Opinion***

The opinion is based solely on the work undertaken as part of the agreed 2011/12 Internal Audit Plan, which provided for 250 days. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our individual assignment reports.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit and Governance Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

### ***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 relating to Oxford City Council is for the year ended 31<sup>st</sup> March 2012. Historic evaluation of effectiveness may not be 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.

The specific time period for each individual internal audit is recorded within section 3 of this report.

## ***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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

# Appendix 2: Basis of our classifications

## Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

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



## Individual finding ratings

Engagement teams should tailor the ‘assessment rationale’ section below based previous discussions with management and the relevant committee e.g. Audit and Governance Committee.

Finding rating	Assessment rationale
<i>Critical</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Critical</b> monetary or financial statement impact (quantify if possible = materiality); or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences (quantify if possible); or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).</li> </ul>
<i>High</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Significant</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
<i>Medium</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance (quantify if possible); or</li> <li>• <b>Moderate</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences (quantify if possible); or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation (quantify if possible).</li> </ul>
<i>Low</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation’s operational performance (quantify if possible); or</li> <li>• <b>Minor</b> monetary or financial statement impact (quantify if possible); or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences (quantify if possible); or</li> <li>• <b>Minor</b> impact on the reputation of the organisation (quantify if possible).</li> </ul>
<i>Advisory</i>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



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