

*Internal Audit
Annual Report
2012/2013*

DRAFT

Oxford City Council
April 2013

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Contents

1. Executive summary	1
2. Summary of findings	3
3. Internal Audit work conducted	4
4. Follow up work conducted	8
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Appendices	9
Appendix 1: Limitations and responsibilities	10
Appendix 2: Basis of our classifications	11

Distribution List

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

The relevant internal audit standards, CIPFA's Audit Code of Practice require 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 should look to gain assurance. This report does not supplant the Council's responsibility for forming its own view on governance, risk management and control.

This report covers the period to the year ended 31 March 2013.

Scope

Our findings are based on the results of the internal audit work performed as set out in the 2012/13 Internal Audit Plan approved by the Audit and Governance Committee. All changes have been outlined in our update reports taken to this 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.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to CIPFA's Audit Code of Practice. 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 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 2012/13 Internal Audit Plan and Individual Assignment Reports.

We have completed the program of internal audit work for the year ended 31 March 2013 with the exception of the following reviews, where the fieldwork has commenced or been completed and will be finalised post 31 March 2013:

Value protection reviews

- Finance year end support (to be delivered during Q1 of FY14 as planned)
- Budgetary Control and Efficiency Savings (draft report)
- Law and Governance – Business Continuity (ongoing)

Value enhancement reviews

- ICT– Disaster Recovery (ongoing)
- Law and Governance – Member Development (ongoing)

We have completed the program of internal audit work for the year ended 31st March 2013 with the exception of the reviews highlighted above. Our work identified 36 low and 17 moderate rated findings. 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.

We identified no critical or high rated findings, with medium rated findings identified only as part of the debtors, creditors, insurance and direct payment reviews. Details of the medium rated issues have been reported within the individual reports presented to the Audit and Governance Committee. A summary of our key findings is described in further detail on page 4.

On pages 5 and 6 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 positive signs on the overall control environment at the Council.

For many of the areas reviewed in the year, the rating was either better or the same as last year. The number of internal audit findings and recommendations has decreased with a total number of 53 findings in 2012/13 compared to 70 in the previous year. Although the mix and focus of our internal work have differed between years and therefore results may not be directly comparable, the reduction in findings, particularly in the high rated findings from 4 to 0, should be a source of considerable comfort.

Reviews deferred into 2013/14 Plan*Finance – Fixed Asset Register Implementation*

The Council currently use Excel for their Fixed Asset Register (“FAR”) and were due to implement a FAR during 2012/13, this was confirmed as not being implemented before 31 March 2013. The review has been deferred into the 2013/14 plan where value from an internal audit review will be delivered once the new FAR has been implemented.

Corporate Assets – Asset Management Strategy

The Council approved the new Asset Management Strategy in October 2012; therefore it is considered that value is delivered through internal audit undertaking an independent review following the Council’s review of the Asset Management Strategy in July 2013.

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 2012/13 is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We undertook 23 internal audit reviews. This resulted in the identification of 0 critical, 0 high, 17 medium and 36 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<p>Our audit plan was scoped to address the Council's key risks and strategic objectives. We mapped each review to these areas in our 2012/13 Internal Audit plan</p> <p>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.</p> <p>Our plan included 7 'value enhancement' reviews and we have mobilised specialists in the areas of ICT and finance in year.</p>
<p>Internal Control Issues</p> <p>During the course of our work we identified no high risk issues which the Council should consider for inclusion in its Annual Governance Statement.</p>	<p>No high risk issues to highlight</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified as low risk for 2012/13:</p> <ul style="list-style-type: none"> • General Ledger • Payroll • Budgetary Control and Efficiency Savings * • Collection Fund • Housing Benefits • Fixed Assets • Car Parking • Performance Management • Corporate Assets – Commercial Property Follow Up • Direct Services – Garden Waste

* - Still in draft at the time of this report

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 2012/13 Internal Audit Plan.

The table below sets out the results of our internal audit value protection 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		Low Risk	0	0	1	1
Debtors	Final		Medium Risk	0	0	2	1
Creditors	Final		Medium Risk	0	0	2	3
Payroll	Final		Low Risk	0	0	1	0
Budgetary Control and Efficiency Savings	Ongoing	No previous review performed	Low Risk	0	0	0	3
Collection Fund	Draft		Low Risk	0	0	1	1
Housing Benefits	Final		Low Risk	0	0	1	2
Fixed Assets	Final	No previous review performed	Low Risk	0	0	0	2
Car Parking	Final		Low Risk	0	0	0	4
Risk Management and Performance	Draft		Low Risk	0	0	3	5
Finance – Insurance	Final	No previous review performed	Medium Risk	0	0	2	4
Corporate Assets – Commercial Property Follow Up	Final		Low Risk	0	0	1	2
Housing and Communities – Direct Payments	Draft	No previous review performed	Low Risk	0	0	1	4

Direct Services – Garden Waste	Final	No previous review performed	Low Risk	0	0	1	2
Law and Governance – Disaster Recovery	Ongoing	No previous review performed					
People and Equalities – Health and Safety	Final		Low Risk	0	0	1	2
Total				0	0	17	36

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 or through the work performed to date for consideration in the Annual Governance Statement:

- Law and Governance – Member Development: (Ongoing)
- Business Improvement – P2P Implementation (Specialist): (Draft)
- Fraud Risk Assessment: (Final)
- HR previously People and Equalities – Policy Review: (Final)
- Health and Safety – Housing and Communities and Corporate Assets: (Draft)
- Barton Project: (Final)
- Standard Operating Procedures: (Final)

Direction of travel

Finding rating	Trend between current and prior year	Number of findings		
		2012/13	2011/12	2010/11
Critical		0	0	0
High		0	4	30
Medium		17	30	93
Low		36	36	52
Total		53	70	162

It should be noted that the mix and focus of 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 or deteriorating performance (e.g. Creditors) and those where performance has decreased (e.g. Debtors) 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

Audit Unit	Audit Type	Budgeted days	Actual days	Reasons for variance
General Ledger	Value protection	5	5	
Debtors		5	5	
Creditors		5	5	
Payroll		5	5	
Budgetary Control and Efficiency Savings		5	5	
Collection Fund		10	10	
Housing Benefits		5	5	
Fixed Assets		5	5	
Car Parking		5	5	
Governance		2	2	To be utilised as part of the Law and Governance Review of Member Development commenced quarter 4 2012/13.
Risk Management and Performance		10	10	
Finance – Fixed Asset Register Implementation		5	0	Deferred to 2013/14 to be delivered following implementation.
Finance – Year End Support		5	5	To be delivered in June 2013 as planned.
Finance – Insurance		5	5	
Corporate Assets – Commercial Property Follow Up		5	5	
Housing and Communities – Northgate Testing		5	0	Review cancelled as Capita undertook this work. Days utilised for Health and Safety Review (5 days).
Housing and Communities – Direct Payments		7	7	
Business Improvement – Data Quality		8	0	Review cancelled as Data Quality covered in Risk Management review. Days part utilised for Standard Operating Procedure review (5 days).
Direct Services – Garden Waste		5	5	
Law and Governance – Business Continuity	Value Protection / Specialist	5	5	Work to be completed quarter 1 2013/14
ICT Strategy – Windows Licensing		13	0	Review cancelled.
ICT – Lagan Post Implementation and Benefits Realisation		10	0	Review cancelled. Days utilised for IT Disaster Recovery review (10 days)
People and Equalities – Health and Safety	Value Protection	5	5	

Law and Governance – Member Development	Value Enhancement	10	10	Work commenced in quarter 4 to be completed quarter 1 2013/14	
Direct Services – Transport Services, VfM and Trading Services		10	0	Review cancelled.	
ICT – IT Disaster Recovery		0	10		
Business Improvement – P2P Implementation	Value Enhancement / Specialist	10	10		
Fraud Risk Assessment	Value Enhancement	5	5		
HR previously People and Equalities – Policy Review		10	10		
Corporate Asset – Asset Management Strategy		5	0	Deferred to Q2 2013/14 (5 days)	
Health and Safety – Housing and Communities and Corporate Assets		0	5		
Barton Project		0	5		
Standard Operating Procedures		0	5		
Follow Up			5	5	
Audit Management			25	25	
Subtotal			220	189	
2011/12 Roll Forward Repairs and Maintenance	Value Enhancement	4	4		
2011/12 Roll Forward Project Management		5	0	Days utilised for Barton Project review (5 days).	
Contingency		3	3		
Total		232	196		
<i>Rolled forward to 2013/14 plan</i>			10		
<i>Removed from plan (net)</i>			26		
Planned days			232		

4. Follow up work conducted

Introduction

Within the Internal Audit Plan for 2012/13, 5 days were assigned for following up recommendations raised during previous periods in order to assess whether agreed actions had been implemented by management.

Results of follow up work

We have considered the progress made and reported this where relevant in each individual report issued throughout the year. There are no matters that we wish to specifically draw out here. We considered the following areas:

- General Ledger
- Debtors
- Creditors
- Payroll
- Collection Fund
- Housing Benefits
- Car Parking
- Risk Management and Performance
- Corporate Assets – Commercial Property Follow Up

Summary

We recommend that further work is conducted to ensure all previously agreed recommendations are implemented at the earliest opportunity or where now superseded cleared at the appropriate time. Issues have been re-raised in the current year where relevant.

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 the 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 2012/13 Internal Audit Plan, which initially provided for 220 internal audit 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 March 2013. 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

<i>Finding rating</i>	<i>Assessment rationale</i>
<i>Critical</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; 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.
<i>High</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
<i>Medium</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
<i>Low</i>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
<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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