

Internal Audit Annual Report 2013/2014

Oxford City Council

April 2014

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Distribution List

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| For action | S151 Officer |
| | Audit and Governance Committee |
| For information | Chief Executive |
| | Corporate Management Team |

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

1. *Executive summary*

Background

This report outlines the work we have carried out during the year and includes the Head of Internal Audit's annual opinion on the adequacy and effectiveness of Oxford City Council's framework 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 their own view on governance, risk management and control.

This report covers the period from 1 April 2013 to 31 March 2014. The specific time period covered by our work for each individual audit is recorded in Section 3.

Scope

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Governance Committee, which should provide a reasonable level of assurance, subject to the inherent limitation of internal audit (covering both the control environment and the assurance over controls) described below and set out in Appendix 1. The opinion does not imply that Internal Audit have reviewed all risks relating to the organisation.

Our findings are based upon and limited to the results of the internal audit work performed as set out in the 2013/2014 Internal Audit Risk Assessment and Plan approved by the Audit and Governance Committee on 27 June 2013. All changes have been outlined in our update reports taken to this committee during the year.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with 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.

The Public Sector Internal Audit Standards require the annual report to include the results of the Internal Audit function's quality assurance and improvement programme. Please refer to Appendix 4 for this information.

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 2013/2014 Internal Audit Risk Assessment and Plan and Individual Assignment Reports.

We have completed the program of internal audit work for the year ended 31 March 2014. Our work identified 36 low, 4 moderate and 2 high 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 control.

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

We identified no critical rated findings; high rated findings were identified only as part of the Business Continuity Management review, with further medium rated findings identified as part of the Community Development – Community Centres and Associations; Business Continuity Management; and IT Disaster Recovery reviews. Details of the high and medium rated issues have been reported within the individual reports presented to the Audit and Governance Committee. A summary of the key findings are described in further detail on page 3.

On pages 4 to 6 we show the direction of travel for both individual review areas and for the number of audit recommendations in each 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 42 findings in 2013/14 compared to 53 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 should be a source of considerable comfort.

Reviews deferred into 2014/15 Plan

Environmental Development – Carbon Budgeting

Corporate Property – Health and Safety

The reviews have been deferred into the 2014/15 plan where value from an internal audit review will be delivered in quarter 1 of 2014/15.

Acknowledgement

We would like to take this opportunity to thank Oxford City Council staff, 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 is recorded in the table below:

| Description | Detail |
|--|---|
| <p>Overview</p> <p>We completed 19 internal audit reviews. This resulted in the identification of 0 critical, 2 high, 4 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 2013/14 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 6 'value enhancement' reviews and we have mobilised specialists in the areas of ICT, HR and finance in year.</p> |
| <p>Internal Control Issues</p> <p>During the course of our work we identified 2 high risk issues which the Council should consider reporting in the Annual Governance Statement.</p> | <p>We identified 2 high risks issues to highlight following our Business Continuity Management review:</p> <ul style="list-style-type: none"> • Business Continuity Plans are out of date and contain details that are no longer valid; and • Dependencies and assumptions within disaster recovery plans are not comprehensive including third party support for critical activities. Plans included incomplete / insufficient guidance over who would be involved and the key documents / equipment required to restore service. <p>Management accepted the findings and agreed actions to remedy them as soon as practicable to improve the control environment.</p> |
| <p>Follow up</p> <p>During the year we have undertaken follow up work on previously agreed actions.</p> | <p>There are no issues to highlight. Further detail of our follow up work is included on page 9.</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 2013/14:</p> <ul style="list-style-type: none"> • Debtors and Creditors; • Collection Fund; • Housing Benefits; • Fixed Assets and General Ledger; • IT General Controls; • Fraud Risk Assessment; • Direct Services – Car Parking; • Community Development – Community Centres and Associations; • Finance – Town Hall Income; • Finance – Fixed Asset Register Implementation; and • IT Disaster Recovery. |

3. Internal Audit work conducted

Introduction



Our internal audit work was conducted in accordance with our letter of engagement, Public Sector Internal Audit Standards, and the 2013/2014 Internal Audit Risk Assessment and 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 | Report Classification and Period Covered | Direction of Travel | Number of Findings | | | |
|--|---------------|--|------------------------------|--------------------|------|--------|-----|
| | | | | Critical | High | Medium | Low |
| Debtors and Creditors* | Final | Low Risk (Debtors) | ↑ | 0 | 0 | 0 | 2 |
| | | Low Risk (Creditors) | ↑ | 0 | 0 | 0 | 3 |
| | | April to March 2014 | | | | | |
| Collection Fund | Final | Low Risk April to October 2013 | ↔ | 0 | 0 | 0 | 1 |
| Housing Benefits | Final | Low Risk April to November 2013 | ↔ | 0 | 0 | 0 | 4 |
| Fixed Assets and General Ledger * | Final | Low Risk (Fixed Assets) | ↔ | 0 | 0 | 0 | 0 |
| | | General Ledger (Low Risk) | ↔ | 0 | 0 | 0 | 1 |
| | | April to August 2013 | | | | | |
| Budgetary Control and Risk Management* | Final | Low risk (budgetary control) | ↔ | 0 | 0 | 0 | 3 |
| | | Low risk (Risk management) | ↔ | 0 | 0 | 0 | 4 |
| | | April to March 2014 | | | | | |
| IT General Controls | Final | Low Risk April to March 2014 | No previous review performed | 0 | 0 | 0 | 4 |
| Fraud Risk Assessment | Final | Low Risk April to | No previous rating | 0 | 0 | 0 | 3 |






| | | September 2013 | provided | | | | |
|---|-------|-----------------------------------|---|---|---|---|----|
| Direct Services – Car Parking | Final | Low Risk April to June 2013 |  | 0 | 0 | 0 | 3 |
| Community Development – Community Centres and Associations | Final | Low Risk April to January 2014 | No previous review performed | 0 | 0 | 1 | 2 |
| Finance – Town Hall Income | Final | Low Risk | No previous review performed | 0 | 0 | 0 | 5 |
| Finance – Fixed Asset Register Implementation rolled forward from 2012/13 | Final | Low Risk | No previous review performed | 0 | 0 | 0 | 0 |
| Business Continuity Management rolled forward 2012/13 | Final | High Risk |  | 0 | 2 | 2 | 0 |
| IT Disaster Recovery rolled forward 2012/13 | Final | Low Risk | No previous review performed | 0 | 0 | 1 | 1 |
| Total | | | | 0 | 2 | 4 | 36 |

*2 separate reviews undertaken in 2012/13

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:

- Corporate Assets – Asset Management Strategy rolled forward from 2012/13
- Cash and Card Payments
- Grant Payments
- Human Resources and Facilities – Payroll including Tax, NI and Compliance
- Direct Services – Income Generation Through DSOs
- Business Improvement and Technology – System Implementation

Direction of control travel

| Finding Rating | Trend Between Current and Prior Year | Number of Findings | | |
|----------------|---|--------------------|-----------|-----------|
| | | 2013/14 | 2012/13 | 2011/12 |
| Critical |  | 0 | 0 | 0 |
| High |  | 2 | 0 | 4 |
| Medium |  | 4 | 17 | 30 |
| Low |  | 36 | 36 | 36 |
| Total |  | 42 | 53 | 70 |

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.

Comparison of planned and actual activity

| Audit Unit | Audit Type | Budgeted days | Actual days | Comments |
|---------------------------------------|------------------|---------------|-------------|--|
| Debtors and Creditors | Value Protection | 14 | 14 | |
| Collection Fund | | 10 | 10 | |
| Housing Benefits | | 7 | 7 | |
| Fixed Assets and General Ledger | | 12 | 12 | |
| Budgetary Control and Risk Management | | 15 | 15 | |
| Governance | | 2 | 2 | Used as part of Member Development |
| IT General Controls | | 7 | 5 | Reduced to 5 days to avoid duplication of external audit work, remaining 2 days utilised on the IT Disaster Recovery review. |
| Fraud Risk Assessment | | 6 | 6 | |
| Finance – Year End Support | | 5 | 5 | |
| Direct Services – Car Parking | | 6 | 6 | |

| Audit Unit | Audit Type | Budgeted days | Actual days | Comments |
|---|--------------------------------|---------------|-------------|---|
| Community Development – Community Centres and Associations | | 10 | 10 | |
| Corporate Property – Health and Safety | | 5 | 0 | Deferred to 2014/15 |
| Finance – Town Hall Income | | 7 | 7 | |
| Business Improvement and Technology – System Implementation | Value Protection / Specialist | 6 | 6 | |
| Cash and Card Payments | Value Enhancement | 10 | 10 | |
| Grant Payments | | 7 | 7 | |
| Environmental Development – Carbon Budgeting | Value Enhancement / Specialist | 10 | 0 | Deferred to 2014/15 |
| Human Resources and Facilities – Payroll including Tax, NI and Compliance | | 16 | 16 | |
| Direct Services – Income Generation Through DSOs | Value Enhancement | 10 | 10 | |
| Law and Governance – Temple Cowley Pool | | 10 | 0 | Review combined with 2014/15 review of the capital programme. |
| Follow Up | | 5 | 5 | |
| Audit Management | | 25 | 25 | |
| Contingency | | 15 | 15 | |
| Sub Total | | 220 | 193 | |
| 2012/13 Roll Forward Business Continuity Management | Value Protection / Specialist | 5 | 5 | |
| 2012/13 Roll Forward IT Disaster Recovery | Value Enhancement | 10 | 12 | 2 days utilised from IT General Controls review. |
| 2012/13 Roll Forward Corporate Asset – Asset Management Strategy | | 5 | 5 | |

| <i>Audit Unit</i> | <i>Audit Type</i> | <i>Budgeted days</i> | <i>Actual days</i> | <i>Comments</i> |
|--|--------------------------|-----------------------------|---------------------------|------------------------|
| 2012/13 Roll Forward Finance – Fixed Asset Register Implementation | Value Protection | 5 | 5 | |
| Total | | 245 | 220 | |
| Rolled forward to 2014/15 plan | | | 25 | |
| Planned days | | | 245 | |

4. Follow up work conducted

Introduction

Within the 2013/2014 Internal Audit Risk Assessment and Plan, 5 days were assigned for following up recommendations raised during previous periods in order to assess whether agreed actions had been implemented by management. Recommendations that were classified as medium and low were followed up by compliance testing and obtaining management representation. The table below summarises the follow up work performed.

Results of follow up work

| Audit Unit | Report Classification 2012/13 Review | Number of Agreed Actions | Status of Agreed Actions | | | |
|--|---|--------------------------|--------------------------|---------|-------------|-------------|
| | | | Implemented | Ongoing | Outstanding | Not Yet Due |
| General Ledger | Low Risk | 2 | 2 | 0 | 0 | 0 |
| Debtors | Medium Risk | 3 | 2 | 1 | 0 | 0 |
| Creditors | Medium Risk | 5 | 4 | 1 | 0 | 0 |
| Payroll | Low Risk | 1 | 1 | 0 | 0 | 0 |
| Budgetary Control and Efficiency Savings | Low Risk | 3 | 3 | 0 | 0 | 0 |
| Collection Fund | Low Risk | 2 | 2 | 0 | 0 | 0 |
| Housing Benefits | Low Risk | 3 | 1 | 2 | 0 | 0 |
| Fixed Assets | Low Risk | 2 | 2 | 0 | 0 | 0 |
| Car Parking | Low Risk | 4 | 3 | 1 | 0 | 0 |
| Risk Management and Performance | Low Risk | 8 | 6 | 0 | 2 | 0 |
| Fraud Risk Assessment | No previous rating provided | 7 | 3 | 4 | 0 | 0 |

Please note follow up work was not undertaken on:

- Finance – Insurance;
- Housing and Communities – Direct Payments;
- Direct Services – Garden Waste; and
- People and Equalities – Health and Safety.

This is because reviews over these areas have not been performed in 2013/14 in line with our Internal Audit Risk Assessment and Plan for the frequency of reviews to be performed.

Summary

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

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, subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed 2013/2014 Internal Audit Risk Assessment and Plan, which provided for 20 internal audit reviews in 220 days and 4 internal audit reviews rolled forward from 2012/2013 in 25 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 period 1 April 2013 to 31 March 2014. 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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