
Internal audit summary report for Audit and Governance Committee

September 2011



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Plan outturn

2011/12 Audit Plan

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Audit and Governance Committee at its meeting in March 2011.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed **90 days out of a total planned 250 days (36%)**. This is in line with the profile of our Internal Audit plan and can be attributed to the majority of financial systems reviews being performed in Q3 of the year. We commit to completing our plan ahead of the year end.

Reporting Activity and Progress

Final reports issued since the previous meeting

- **Car Parking** – We have classified our findings in this area as **Medium Risk**. The Car Parking department has made improvements to the controls identified in prior years as well as implementing a series of new controls to enhance effectiveness. The majority of prior year recommendations have been addressed notably around the stewardship of Shopmobility vehicles with the implementation of a new user database, asset register and daily usage records. The operating effectiveness of the cash collection process has improved considerably with only one minor issue being noted around the reconciliation of income collected on a daily basis. The department has carried out a risk assessment on all procedures in year in order to identify those areas susceptible to fraud. In response to this, a number of new controls around cash handling and custody of assets have been introduced. Whilst the operation of some of these processes is being embedded, there are still exceptions from testing in a number of areas.
- **Fraud Awareness** – We conducted fraud awareness workshops with officers in June 2011. We have detailed our findings from these discussions later in our report.

Fieldwork and draft reports

Draft reports have been issued and/or fieldwork has commenced in the following areas: -

- General Ledger
- Cash Collection and Establishment
- Treasury Management
- Homelessness
- Budgetary Control
- Contract Assurance
- Procurement Computer Assisted Audit Techniques

Fraud Risk

Our Internal Audit Charter states that as Internal Auditors we will “assist in the investigation of significant suspected fraudulent activities within the Council in accordance with its anti fraud and corruption procedures” and carry our anti fraud and corruption work as requested by management and members. Your external auditors (the Audit Commission) are required under the ISA 240 “The auditor’s responsibility to consider fraud in the audit of financial statements”, to explicitly consider fraud as part of their audit procedures.

Three conditions generally are present when fraud occurs:



1. management or other employees have an incentive or are under pressure that provides a reason to commit fraud (e.g. pressure to meet targets or hold position);
2. circumstances exist (e.g. the absence of controls, ineffective controls, or the ability of management to override controls) that provide an opportunity for a fraud to be perpetrated; and
3. those involved are able to rationalise a fraudulent act as being consistent with their personal code of ethics or possess an attitude, character, or set of ethical values that allow them to knowingly and intentionally commit a dishonest act.

From wider discussions with both our corporate and public sector clients, we have noted that as the UK economy goes through recession the pressure increases on employees. In such times the risk of fraud becomes much increased.

The following areas of fraud risk were identified during our workshop with officers. We are aware that the Councils Investigations Manager has identified a number of these issues and is working with officers to implement solutions to prevent and detect fraud in these areas. The Council is also introducing new systems and procedures which will improve transparency and reduce risk in certain of these areas.

The following should therefore read as a listing of **potential** risks to the Council.

- Housing Benefit and Council Tax fraud is on the increase in the current economic climate. There are added incentives to misrepresent personal situations. e.g. Single Persons Discounts;
- Within Housing, it was acknowledged that additional work is required to detect tenancy fraud, most

notably in the areas around subletting and allocations;

- The pressure of cuts and the need for Value for Money may increase the risk of misrepresentation of financial and performance information within the Council. In addition, the Council should be aware of the potential for increased fraud created by cuts in team sizes. Maintenance of segregation of duties and supervision in this environment should be considered;
- There is a heightened risk of fraud in areas where cash is handled. This may manifest itself in theft and money laundering (e.g. refunds paid by cheque);
- Misappropriation of assets is possible where employees have access to Council stock and assets (e.g. vehicles) Controls such as key logs and equipment registers/stock takes will help to mitigate against this risk;
- The Council is looking to work with Internal Audit on devising reports to identify potential trends and unusual transactions that may indicate fraud within the purchases and sales cycles. A wider acknowledgement of “risky” transactions (e.g. those posted after hours and with round sum amounts) will help to detect fraudulent transactions.

We would be pleased to receive any comments that you have on this area and its views on the risk of fraud. How are you confident that the risks of fraud have been identified and mitigated? We continue to work with the Councils Investigations Manager (Carol Quainton) on both fraud prevention and detection measures.

Appendix One – Plan Progress

Review	Days	Quarter per plan	Progress
General Ledger	10	2	Fieldwork concluded
Debtors	10	3	Scoping commenced
Creditors	10	3	Scoping commenced
Payroll	10	3	Scoping commenced
Collection Fund	10	2	Fieldwork commenced
Cash Collection and Establishment	10	1	Draft Report issued
Treasury Management	5	2	Draft Report issued
Housing Benefit	10	3	To be commenced in Q4
Fixed Asset	10	4	To be commenced in Q4
Housing Rents	5	3	Scoping commenced
Risk Management and Performance Monitoring	15	3	Scoping commenced
Law and Governance - Transparency Agenda	5	1	Review parked
Homelessness	5	1	Draft Report issued
Income Stream - Car Parking	5	2	Final Report issued
Income Stream - Trade Waste	5	2	Fieldwork commenced
Income Stream - Commercial Property	5	2	Scoping commenced
Budgetary Control	10	2	Draft Report issued
Year end Support	10	4	To be commenced in Q4
Procurement CAATS	5	2	Scoping commenced
ICT	25	-	Risk assessment commenced
Contract Assurance	10	2	Fieldwork commenced
Project Governance	5	4	To be commenced in Q4
Fraud Awareness	5	1	Work completed
HRA Reform	10	2	Scoping commenced
Follow Up	10	-	Ongoing
Audit Management	30	-	Ongoing
	250		

Summary of recommendations (final reports only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
Car Parking	0	2	6	12	MEDIUM
Total	0	2	6	-	

Appendix Two – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

Accounting developments

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

Creating Auditor Choice

On 13th August 2010, Secretary of State for Communities and Local Government Eric Pickles announced the end of the Audit Commission, signalling a new era of public sector audit.

What followed was a period of uncertainty and speculation with the publication of the ‘future of local public audit’ consultation paper in April 2011, providing much needed structure to the debate. The political and economic backdrop to the demise of the Audit Commission has been one of significant change, with substantial public sector spending cuts.

Capable Communities: Towards Citizen-Powered Public Services

Everyone is talking about the ‘Big Society’ as part of the next stage of public service reform, but much of the discussion to date has been abstract rather than practical. Getting citizens more involved in the design and delivery of public services has real promise as a way of empowering citizens, improving outcomes and providing better value for money. But we need to understand much better how this agenda can be translated into practice. This report asks how, in practical terms, citizens can act together to improve the way public services work for them. This can involve individuals volunteering their time to help others, but it is also about empowering people to help themselves.

All publications can be read in full at www.psrc.pwc.com/.

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