

*Internal Audit
Annual Report
2014/2015*

DRAFT

Oxford City Council

June 2015

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Distribution List

For action	Members of the Audit and Governance Committee
	S151 Officer
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 dated 1 July 2013.

1. *Executive summary*

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 March 2015.

The Public Sector Internal Audit Standards require the Head of Internal Audit 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 Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee agreed to a level of internal audit input of 245 days; all were delivered plus and additional five days.

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

Head of Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Improvement required

There are some weaknesses in the framework of governance, risk management and control which potentially put the achievement of organisational objectives at risk and there is some non-compliance with controls that may put the achievement of organisational objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of 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 2014/2015 Internal Audit Risk Assessment and Plan and Individual Assignment Reports.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

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

We identified no critical and no high rated findings.

17 medium rated findings have been identified as part of the following reviews:

- General Ledger
- Payroll
- Creditors
- Collection Fund
- Housing Benefits
- Housing Rents
- Car Parking
- Sports Pitch & Facility Bookings
- Planning Applications
- Health & Safety: Corporate Property & Housing

Details of the medium rated issues have been reported within the individual reports presented to the Audit and Governance Committee. Six areas, as set out below, were rated Medium risk overall and the Council has agreed action plans to strengthen the areas of weakness identified. We do not feel that any of these areas require reporting in the Annual Governance Statement.

- Creditors
- Collection Fund
- Housing Rents
- Sports Pitch & Facility Bookings
- Planning Applications
- Health & Safety: Corporate Property & Housing

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 total number of internal audit findings and recommendations has increased to 61 in 2014/15 compared to 35 findings in the previous year. We do not consider the increase to be a significant cause for concern as it reflects a different mix of reviews and a more detailed focus of our work on areas of compliance. The lack of any high risk findings should be a source of considerable comfort.

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 Council'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:










<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 19 internal audit reviews. This resulted in the identification of 17 Medium and 44 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p> <p>We did not identify any critical or high risk findings and for many of the areas reviewed the rating was either better or the same as last year. This is a positive reflection on the overall control environment at the Council.</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 2014/15 Internal Audit Plan.</p> <p>We have completed 5 'value enhancement' reviews and we have mobilised specialists in the areas of ICT, Capital Projects and Environmental Sustainability who have provided the Council with recommendations and best practice insight.</p>
<p>Internal Control Issues</p> <p>During the course of our work we did not identify any high risk issues or areas of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>None noted.</p>
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation's governance, risk management and control, which relate to 6 areas which were identified as overall medium risk.</p>	<p>Management have agreed action plans to address the weaknesses and/or areas of non-compliance with policy identified from the following medium risk internal audit reviews:</p> <ul style="list-style-type: none"> • Creditors • Collection Fund • Housing Rents • Sports Pitch & Facility Bookings • Planning Applications • Health & Safety
<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:</p> <ul style="list-style-type: none"> • Fixed Assets, General Ledger & Payroll • Sundry Debtors, Cash Collection • Housing Benefits • Risk Management • Treasury Management • Car Parking • Void Properties • Discretionary Housing Payments <p>We identified no internal control findings in our work on:</p> <ul style="list-style-type: none"> • Budgetary Control • VAT

3. Internal Audit work conducted

Introduction






The table below sets out the results of our internal audit work. We also include a comparison between planned internal audit activity and actual activity.

Results of individual assignments

Review	Report classification	Trend	Number of findings			
			Critical	High	Medium	Low
Fixed Assets	Low		0	0	0	3
General Ledger	Low		0	0	1	3
Payroll	Low		0	0	1	2
Creditors	Medium		0	0	2	1
Sundry Debtors	Low		0	0	0	3
Cash Collection	Low	n/a	0	0	0	1
Collection Fund	Medium	n/a	0	0	2	3
Housing Benefits	Low	n/a	0	0	1	2
Housing Rents	Medium	n/a	0	0	1	5
Budgetary Control	No risk rating		0	0	0	0
Risk Management	Low		0	0	0	3
VAT	No risk rating	n/a	0	0	0	0
Treasury Management	Low		0	0	0	3
Car Parking	Low		0	0	1	1
Managing Capital Projects	In progress	-	-	-	-	-
Sports Pitch & Facility Bookings	Medium	n/a	0	0	4	3
Planning Applications	Medium	n/a	0	0	1	4
Void Properties	Low	n/a	0	0	0	3
Discretionary Housing Payments	Low	n/a	0	0	0	2
Post Implementation Review Business Rates and Council Tax Collection	In progress	-	-	-	-	-
Health & Safety: Corporate Property & Housing	Medium	n/a	0	0	3	2
	Total		0	0	17	44

*In some cases, a review may have been performed in the prior year but the scope of work has changed considerably. As such a comparison to prior year has not been made.

Direction of control travel

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>		
		<i>2014/15</i>	<i>2013/14</i>	<i>2012/13</i>
Critical		0	0	0
High		0	2	0
Medium		17	4	17
Low		44	29	36
Total		61	35	53

The overall increase in the number of findings identified in 2014/15 cannot be directly compared with prior years due to a different mix and focus of reviews in the internal audit plan.

Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Type of audit</i>	<i>Budgeted days</i>	<i>Actual days</i>	<i>Comment</i>
Finance Systems	Value Protection	16	16	Final report
Debtors, Creditors & Income Collection:		16	16	Final report
Collection Fund		12	12	Final report
Housing Benefits		10	10	Final report
Housing Rents		10	10	Final report
Budgetary Control, Risk Management & Performance:		13	13	Final report
VAT & Treasury Management:		10	10	Final report
Car Parking		7	7	Final report
Managing Capital Projects		10	10	Field work complete, report is being prepared
Sports Pitch & Facility Bookings		8	8	Final report
Planning Applications		10	10	Final report
Void Properties		10	10	Final report
Discretionary Housing Payments		10	10	Final report
Health & Safety: Corporate Property & Housing		5	9	Originally planned in 2013/14 to include only Corporate Property. Following merger of teams, scope increased to include Housing.
Finance – Year end support		5	5	Adhoc support to Head of Finance: <ul style="list-style-type: none"> • Corporate Purchase Card • Post room cheque recording • Utilities billing process
Post implementation review: Recovery team restructure	Value Enhancement	10	10	Field work complete, report is being prepared
Contract Management with IT Suppliers		12	12	Specialist support to the Council's tender process for new ICT infrastructure partners
End of Year Process: Council Tax, Business Rates, Rent and Benefits		16	16	Final report
Environmental Development		10	10	Final report
Contingency - Rose Hill Community Centre		15	16	Specialist review of the management of the Rose Hill Community Centre project
Audit Management & Follow Up	Other	30	30	
Total		245	250	

4. Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. The Council has a process for monitoring the implementation of agreed internal audit recommendations and progress is reported to the Audit and Governance Committee.

In accordance with our internal audit plan, we also followed up a sample of recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Report classification	Number of agreed actions	Status of agreed actions			
			Implemented	Ongoing *	Outstanding	Not yet due
Risk Management	Low	4	4	-	-	-
Budgetary Control	Low	2	2	-	-	-
Car Parking	Low	3	1	2	-	-
Housing Benefits	Low	4	1	3	-	-

*Indicates similar recommendations have been made in the current year internal audit review.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. 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 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 2014 to 31 March 2015. 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: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
Adequate and effective	<ul style="list-style-type: none"> • Generally only low risk rated weaknesses found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: 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 Committee.

<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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