

*Internal Audit
Half-year summary
report*

September 2015

Oxford City Council

November 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 25 June 2015.

1. Executive summary

Introduction

This report outlines the internal audit work we have carried out for the six months ended 30 September 2015.

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

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). As we have only provided internal audit services for the first 6 months of 2015/16 we are unable to provide an opinion based on the completion of the full risk-based plan of work that was agreed with management and approved by the Audit and Governance Committee.

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.

We have set out below a summary of the work performed and highlight any areas of weaknesses in the framework of governance, risk management and control or areas of non-compliance with controls that may put the achievement of organisational objectives at risk.

Summary

We identified no critical and no high rated findings.

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

- Housing Benefits
- Housing Allocations
- Investment Properties

Details of the medium rated issues have been reported within the individual reports presented to the Audit and Governance Committee. 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.

On page 3 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.

In section 4 we provide a summary of the final reports issued since the September 2015 meeting of the Audit and Governance Committee.

Acknowledgement

We would like to take this opportunity to thank Oxford City Council staff, for their co-operation and assistance provided during the years we have delivered the internal audit service.

2. Summary of findings

Overview

We completed 5 internal audit reviews. This resulted in the identification of 3 medium and 13 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.

We did not identify any critical or high risk findings and for 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.

We also completed 1 'value enhancement' review and provided the Council with recommendations and best practice insight.

Internal Control Issues

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.

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work performed during the first six months of 2015/16.

Results of individual assignments

Review	Report classification	Trend	Number of findings			
			Critical	High	Medium	Low
Collection Fund	Low		0	0	0	1
Housing Benefits	Low		0	0	1	3
Housing Rents	Low		0	0	0	6
Housing Allocations	Low	n/a	0	0	1	3
Investment Properties	Low	n/a	0	0	1	0
Procurement	n/a	-	-	-	-	-
Total			0	0	3	13

Direction of control travel

Finding rating	Number of findings			
	Q1&Q2 2015/16	2014/15	2013/14	2012/13
Critical	0	0	0	0
High	0	0	2	0
Medium	3	17	4	17
Low	13	44	29	36
Total	16	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.

4. Final reports issued since the previous Committee meeting

Name of audit	Conclusion	No of recommendations made			
		 Critical	 High	 Medium	 Low
Collection Fund	Low Risk	0	0	0	1
Housing Benefits	Low Risk	0	0	1	3
Housing Rents	Low Risk	0	0	0	6
Procurement	n/a	-	-	-	-
Post-implementation review: Revenues team restructure	n/a	-	-	-	-

We summarise the findings from these reviews below:

Collection Fund

We identified one low risk issue relating to the debt recovery process. In 8 of the 25 cases selected we found that there had been delays in attempting to recover the debt. Some of these delays were due to several staff in the Recovery Team leaving. Since we raised these findings at the time of our review, Officers have taken action to follow up and move the debts to the next stage of recovery.

Housing Benefits

Work is ongoing in relation to recovery of housing benefit overpayments and we highlighted this as a medium risk in this report. Arrears relating to housing benefit overpayment has risen to £6m at the end of August 2015, an increase of £0.8m (15%) compared to the same time last year. £2.8m of debt has no recovery agreement in place.

We also raised three low risk issues:

- Quality checks - The Council aims to check 10% of claims processed. In the year to date this target has not been achieved with checking ranging from between 7.9% to 9.5% per month.
- New claims processing – The target for processing new claims is 14 days. The average processing time at 1 September 2015 is in excess of the target at 15.94 days.
- Weekly Academy to Agresso reconciliations – In our sample of five, one reconciliation was not performed until two weeks after the week to which it related. Three of the reconciliations were not reviewed until at least 10 days after they were performed. This is not considered timely for a weekly reconciliation.

Housing Rents

We identified 6 low risk issues relating to:

- Refunds and credits: Former Tenants (Right to Buy) - Refunds are not always processed on a timely basis, in one case a refund is still owed to a former tenant after 3 months.
- Refunds and credits: Processing - There is unclear and inconsistent understanding by staff for target dates to process refunds.
- Refund reconciliations - Monthly rent refund reconciliations between Agresso and Northgate are not reviewed.
- Arrears recovery:

- Tenants in arrears are not always contacted on a timely basis. We noted several instances where initial contact had been delayed, resulting in slower recovery/resolution than might have been expected.
 - Reduction in housing benefits is not identified. In one case the tenant who was receiving part housing benefits had his benefits reduced by £2 a week in March 2014. This was not picked up for over a year and hence arrears built up for the additional rent due.
 - In last year's audit, we noted that the system did not allow for identification of tenants who have ceased payment but were still in credit on the system. Reports are still not run to show if any tenants have stopped paying and the action has been carried over to this year's report.
- Additions to Housing Stock - For one of five new properties tested, the rent was different on Northgate to the tenancy agreement.
 - System access for leavers - Documentation to evidence the controls in place to remove access to leavers was unavailable at the time of the audit.

We used Computer Assisted Audit Techniques ("CAATs") to identify potential discrepancies in the accuracy and completeness of housing rents. The results highlighted a small number of exceptions; these have been followed up with management and are considered to be valid, thus providing a high degree of assurance over the completeness and accuracy of rental income.

Procurement

Our review gathered views from users of the procurement service, specifically focusing on compliance with the process, barriers to use of the service and training needs and awareness of the process and requirements. We have identified some areas of good practice and also noted a number of areas for focus for the Council over the coming months which would help to further strengthen the procurement processes.

Post-implementation review: Revenues team restructure

In May 2014 the Council put in place two additional posts; a Court Recovery Office and an Appeals and Complaints Officer, to strength processes for recovery of council tax, business rates and housing benefit overpayments. We considered the new processes that have been put in place for recovery and found the overall design of the recovery processes to be robust.

The team's focus has initially been on council tax and business rates recovery and significant progress has been made in embedding processes and improving collection for these two debt types; reflected by a reduction in arrears since the recovery team restructure. Challenges are still faced with recovery of housing benefit overpayments, for which there are fewer recovery mechanisms available and recovery requires high levels of resource input.

We reviewed the effectiveness of the two new posts against the defined success criteria and where appropriate highlighted areas for further improvement.

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 2015 to 30 September 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: 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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