

Oxford City Council

INTERNAL AUDIT PROGRESS REPORT

December 2015

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FINAL



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PROGRESS AGAINST 2015/16 INTERNAL AUDIT PLAN

Internal Audit

This report is intended to inform the Audit and Governance Committee of progress made against the 2015/16 internal audit plan which was approved by Audit and Governance Committee on 23 April 2015. A summary of progress made against the 2015/16 internal audit plan, the work we have done, together with our assessment of the systems reviewed and can be seen overleaf.

Please note that our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the Audit Sponsor, identifying the headline and sub-risks which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in appendix II of this report, and are based on us giving either "substantial", "moderate", "limited" or "no" assurance. The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

Work outside of the Internal Audit Plan

We completed the certification for the CFB06 Pooling of Housing Capital Receipts grant. This is an annual mandatory certification that must be completed by an independent auditor by 30 November each year and submitted to the Department for Communities and Local Government.

Overview of 2015/16 work to date

We have completed and finalised the reports for:

- Audit 1a. Accounts Payable
- Audit 1b. Accounts Receivable
- Audit 2. Finance System
- Audit 3. SIGMA System
- Homes and Community Agency (HCA) Compliance Audit
- Pooling of Housing Capital Receipts grant certification.

The following reports were given limited assurance on either design or effectiveness and therefore the full reports have been presented to the Audit and Governance Committee separately to this Audit Progress Report:

- Audit 1a. Accounts Payable
- Audit 1b. Accounts Receivable.

The HCA Compliance Audit and Pooling of Housing Capital Receipts were both grant compliance/certification reviews.

We concluded that there were no issues arising from the Pooling of Housing Capital Receipts grant certification however, some instances of non-compliance were reported to the HCA.

Please note that for those audits which did not receive limited assurance or lower, the Executive Summary has been provided within this Audit Progress Report.

PROGRESS AGAINST 2015/16 INTERNAL AUDIT PLAN

The reviews to be completed for the period 1 October 2015 to 31 March 2016 were agreed at a meeting of Heads of Service on 6 October 2015 which the Internal Audit Manager and Head of Internal Audit attended.

Name of review	Audit Sponsor	Agreed Days	Planning	Fieldwork	Reporting	Committee Reported to	Assurance	
							Design	Effectiveness
EFFICIENT, EFFECTIVE COUNCIL								
Audit.1a Accounts Payable	Nigel Kennedy	6	✓	✓	✓	December 2015	Moderate	Limited
Audit.1b Accounts Receivable	Nigel Kennedy	6	✓	✓	✓	December 2015	Moderate	Limited
Audit.2 Finance Systems	Nigel Kennedy	15	✓	✓	✓	December 2015	Moderate	Moderate
Audit.3 SIGMA System	Jo Colwell	7	✓	✓	✓	December 2015	N/A	N/A
Audit.4 Trading Services	Graham Bourton and Jackie Yates	18	✓	✓				
Budgetary Control, Risk Management and Performance	Nigel Kennedy	12	✓					
Business Improvement and Technology	Paul Fleming	12	✓					
Finance - Year End Financial Reporting Timetable	Nigel Kennedy	10	✓					
MEETING HOUSING NEEDS								
HCA Compliance Claim	Nigel Kennedy	7	✓	✓	✓	December 2015	N/A	N/A
Housing and Property: Homelessness Prevention	Dave Scholes	10	✓					
CLEANER, GREENER OXFORD								
Enforcement	Patsy Dell	12	✓					

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PROGRESS AGAINST 2015/16 INTERNAL AUDIT PLAN

The below table identifies those audits that were not in the agreed 2015/16 internal audit plan and therefore are those reviews performed by internal audit in addition to the plan.

Name of review	Audit Sponsor	Agreed Days	Planning	Fieldwork	Reporting	Committee Reported to	Assurance	
							Design	Effectiveness
MEETING HOUSING NEEDS								
Pooling of Housing Capital Receipts Grant Certification	Nigel Kennedy	7	✓	✓	✓	December 2015	N/A	N/A
Flood Support Scheme Grant Certification	Nigel Kennedy	5	✓	✓				

EXECUTIVE SUMMARY - AUDIT 2. FINANCE SYSTEMS

OXFORD CITY COUNCIL STRATEGIC OBJECTIVE THIS REVIEW RELATES TO

Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Moderate	System of internal controls is weakened with system objectives at risk of not being achieved
Effectiveness	Moderate	Non-compliance with key procedures and controls places the system objectives at risk

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)

High	-
Medium	4
Low	4

Total number of recommendations: 8

OVERVIEW: FINANCE SYSTEMS

Oxford City Council's (the Council's) main financial system is Agresso, within which fixed assets, general ledger and payroll transactions are recorded. The purpose of the review was to assess the design and effectiveness of controls in relation to fixed assets, general ledger and payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.

During the review we noted the following areas of good practice:

- The Council's accounting system Agresso, has sufficient functionality to support the processing of different journal types whilst maintaining an audit trail for approval
- Quarterly reconciliations between Council systems to the fixed asset register operates well and captures any differences to ensure action is undertaken where necessary
- Through evaluation of a sample of capital additions, disposals and assets held for sale, we identified good evidence to verify the accuracy and classification of capital assets
- Heritage assets are valued annually by an internal valuer which is over and above the requirements of Financial Reporting Standard (FRS) 30 and the value of heritage assets were agreed to external valuer reports in line with expectations
- Through observation we found there was good challenge by the Capital Accountant on whether the capitalisation of an asset should be undertaken
- The evidence behind new starters, leavers and variations of payroll transactions are well maintained and parameters for different payroll taxes and adjustments are uploaded to the payroll system automatically.

However we also found the following areas for improvement:

- For expenses claims, the narrative provided by those claiming expenses is often limited and therefore, this limits the reviewer's ability to assess whether the expense claim is appropriate and legitimate
- The Council's Academy system should be reconciled on a weekly basis to the Agresso system rather than on a monthly basis
- For a sample of four account code and one cost centre change form we could not review whether these were completed as requested as these were not retained by the finance team after the changes were completed
- For a sample of four out of the 10 manual journal entry forms, the financial periods did not match the periods on the Agresso system
- We have raised an efficiency finding around the Council having a lower threshold for capitalisation than many other Councils and not having a separate threshold for land and buildings.

Conclusion

We have issued four medium and four low recommendations. We identified good design of controls to manage both the day-to-day operation of finance systems and management oversight. Furthermore, from our testing and observation of the control environments we did not identify any high recommendations or significant instances of non-compliance of controls in place. As a result we conclude moderate assurance on both the design and operational effectiveness of the controls.

EXECUTIVE SUMMARY - AUDIT 3. SIGMA SYSTEM

OXFORD CITY COUNCIL STRATEGIC OBJECTIVE THIS REVIEW RELATES TO

Efficient, Effective Council: A flexible and accessible organisation, delivering high-quality, value-for-money services.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)

High		6
Medium		4
Low		4

Total number of recommendations: 14

OVERVIEW: SIGMA System

The aim of this review is to assess the reliability of a data export that can be produced from the SIGMA system (which contains energy supply details) which could be directly imported to Oxford City Council's (the Council's) accounting system, Agresso. The Council intend for this review to support their decision over whether the export should go live based on the control design and effectiveness we identified.

During the review we noted the following areas of good practice:

- The software provider to the SIGMA system have a contractual agreement with the Council to ensure that the system will not be unusable for a period greater than three working days. Therefore there are good business continuity arrangements which are vital should the SIGMA system be fully implemented to support the payment of energy invoices to suppliers
- There are sophisticated access rights built into the SIGMA system which ensure that the data is protected and limits can be set on the information users can view and edit
- The SIGMA system team have a good working knowledge of the system and its operation to manage the additional workload should the data export go live.

However we also found the following areas for improvement to strengthen the control environment prior to going live:

- Independent verification of parameters must be documented each time contractual changes to rates charged on energy invoices takes places
- Raising queries in the SIGMA system is a fundamental control to ensure disputes on energy invoices are resolved. The process to follow-up on queries promptly could be improved with enhanced management information and more timely follow-on of actions on the queries held, as we identified numerous instances where query due dates had passed without action being taken
- Comfort over the transfer of data from the SIGMA system to Agresso can be enhanced by ensuring a reconciliation is completed and evidenced within 48 hours of an import file interfacing with Agresso
- Prior to going live, the SIGMA team need to communicate clearly to finance, the post-room, budget holders and senior stakeholders how the system will operate to ensure all parties are clear on their roles and responsibilities
- Procedures must be assigned and set-up to ensure, should the SIGMA system go live, that spot checking of energy invoices is undertaken and evidenced and that a pre-agreed date for a post implementation review is set and undertaken.

Conclusion

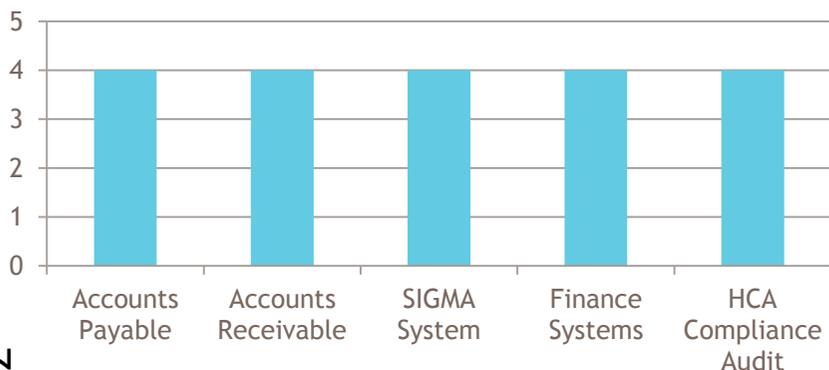
We have issued six high, four medium and four low recommendations which must be implemented and acted upon prior to the system going live. The nature of our review was advisory and many of these relate to things for the Council to consider, rather than weaknesses with current arrangements. However, based on the testing performed we conclude that moving to the new arrangements will be more efficient and effective for the Council. Subject to the recommendations in this report being implemented, the Council should be in a position to meet its internally agreed a go-live date of 4 January 2016 with a post-implementation review to take place late February or March early 2016. By undertaking the change there is no additional cost to the Council; the SIGMA team have confirmed that the additional duties they will undertake can be met within their current staff capacity. The financial benefits of this change are that the current significant level of manual approval of invoices by budget holders across the Council will end; whilst this is not quantifiable this represents a significant efficiency saving to the Council.

KEY PERFORMANCE INDICATORS - MAIN MESSAGES

We set out the main messages from our reviews completed and presented to this Audit and Governance Committee; a full listing of results from our audit satisfaction surveys can be seen in appendix I. In the detail below we set out the completion of key milestones for each review alongside the feedback of auditees.

1 Overall audit experience was rated an average 4 out of 5 for all reviews conducted; with no score lower than a 4 from any respondents

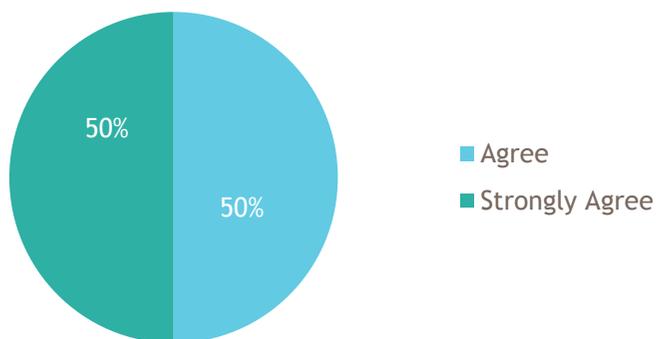
How would you rate the overall audit experience?



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3 In answer to 'Did our work add value?' 50% of respondents gave the highest response of strongly agreed with no respondent giving a response lower than agreed

Did our work add value?

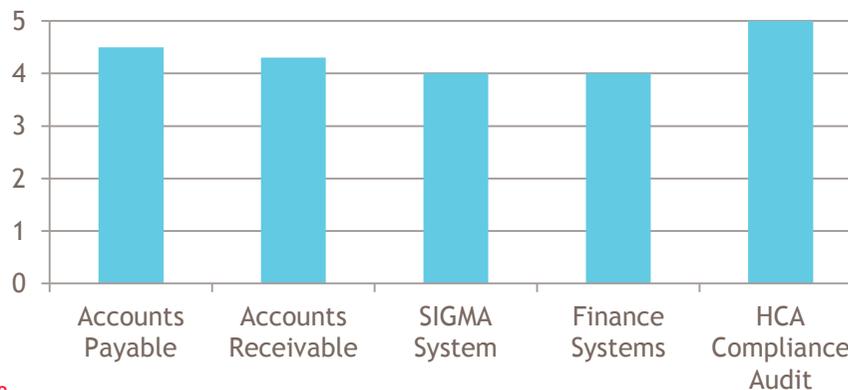


2 All reviews reported to this Audit and Governance Committee were scoped and finalised within 9 weeks

	Scoping Review	Fieldwork Start	Closing Meeting	Draft Report	Final Report
Accounts Payable	7 Oct	12 Oct	29 Oct	23 Nov	05 Dec
Accounts Receivable	7 Oct	19 Oct	29 Oct	23 Nov	05 Dec
SIGMA System	1 Oct	19 Oct	3 Nov	19 Nov	01 Dec
Finance Systems	9 Oct	2 Nov	23 Nov	26 Nov	05 Dec
HCA Compliance Audit	1 Oct	23 Oct	25 Nov	27 Nov	27 Nov

4 With regards to our communication we scored no lower than a 4 from any respondent, an average score of 4.3 out of 5

How would you rate communication with regards to the progress of the audit and, if applicable, any significant issues identified?



SECTOR UPDATE - TAILORED TO OXFORD CITY COUNCIL

There is unprecedented change in the local government sector with continued reduction in central government funding, devolution package submissions and agreements in progress, greater pressure to deliver local growth and increasing cyber security risks. These all add to the challenging landscape facing local authorities and here we provide a selection of updates tailored to those challenges and opportunities Oxford City Council are presented with.

BUSINESS RATES PLANS IN PLACE TO MANAGE APPEALS PROCESS

<p>What's the update?</p>	<p>The Department for Communities and Local Government opened a consultation in November 2015 which set out plans to shake up the current business rates appeal process and protect councils from speculative appeals, has been published. Under the current system, councils have to meet any refunds following successful appeals from the locally retained 50% of rate growth; the value of the locally retained business rates for 2015/16 was budgeted at £42.3 million.</p> <p>Currently, a majority of appeals are submitted by agents, many of whom operate on a 'no win-no fee' basis, sometimes for businesses who are unaware this is being done on their behalf. To counter this, a new fee would be charged for anyone looking to lodge an appeal. This would be refundable if appeals are successful, and will be set at between £100 to £300, similar to fees charged by other tribunals such as tax tribunals.</p>
<p>How does this impact Oxford?</p>	<p>At the September 2015 Audit and Governance Committee, Members were presented with the report 'Business Rates Collection and Retention' which noted the value of appeals submitted by businesses at 31 March 2015 that are anticipated to be upheld is approximately £12.9 million. Therefore any plans to change the process of appeals may have an impact on future provisions set aside and the level of appeals the Council is subject to.</p>
<p>Where to find out more</p>	<p>http://www.publicfinance.co.uk/news/2015/11/dclg-crack-down-%E2%80%98unscrupulous%E2%80%99-business-rate-appeals</p>

COUNCIL TAX SUPPORT LOCALISATION UNDER REVIEW

<p>What's the update?</p>	<p>The government has launched a review of the localisation of council tax support in December 2015 that will consider the impact of the reform on local government finance. Under the reform, which also saw funding for council tax support cut by 10%, councils were not able to reduce the level of support offered to pensioners when they developed schemes intended to better match local circumstances. The review would consider how the change had been implemented, what it has meant for people receiving council tax support, and whether support should be part of Universal Credit payments in the future.</p>
<p>How does this impact Oxford?</p>	<p>The Council may be asked for their views on the experience of council tax support localisation. In future years there may be a change which leads to support being provided as part of Universal Credit payments which may offer greater benefit to working age residents.</p>
<p>Where to find out more</p>	<p>http://www.publicfinance.co.uk/news/2015/12/dclg-launches-review-devolution-council-tax-support</p>

DEVOLUTION PACKAGES NEED GREATER CLARITY OVER RISK OWNERSHIP

<p>What's the update?</p>	<p>The Public Accounts Committee has called for greater clarity in the government's flagship devolution agreements after raising concerns about accountability and scrutiny arrangements in the first round of City Deals in England.</p>
<p>How does this impact Oxford?</p>	<p>The Council made a submission in September 2015 as part of a devolution package to Government. If the Council and other parties for the devolution package are successful then serious consideration must be given to the concerns raised by the Public Accounts Committee.</p>
<p>Where to find out more</p>	<p>http://www.publicfinance.co.uk/news/2015/11/pac-issues-accountability-warning-devolution-deals</p>

SECTOR UPDATE - TAILORED TO OXFORD CITY COUNCIL

There is unprecedented change in the local government sector with continued reduction in central government funding, devolution package submissions and agreements in progress, greater pressure to deliver local growth and increasing cyber security risks. These all add to the challenging landscape facing local authorities and here we provide here a selection of updates tailored to those challenges and opportunities Oxford City Council are presented with.

HOMELESSNESS RISING NATIONALLY AND IN OXFORD

What's the update?	<p>Each quarter the Department and Communities and Local Government release Statutory Homelessness statistics; in September 2015 data for the quarter April to June showed that the English local housing authorities received 27,550 applications for housing assistance under the homelessness legislation of the Housing Act 1996. In England over the same period, local authorities accepted 13,850 households, which was up 5 per cent compared to the same quarter last year.</p> <p>This shows there is a national increase in homelessness which is echoed locally in Oxford. The Oxford Mail reported in December 2015 that homelessness in Oxford has increased by 50 per cent in a year with latest figures showing 39 people are now sleeping rough; it also confirmed that the Councils annual street count in November 2015 found 13 more people are living on the streets than last year.</p>
How does this impact Oxford?	This is a recognised risk for the Council and in quarter 4 of our internal audit plan we are performing a review of homelessness prevention.
Where to find out more	<p>https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/463017/201506_Statutory_Homelessness.pdf</p> <p>http://www.oxfordmail.co.uk/news/14116406.Homeless_crisis_on_Oxford___s_streets_is_getting_worse/</p>

DOMINANT SINGLE PARTY COUNCILS PRONE TO CORRUPTION?

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What's the update?	<p>Councils dominated by one political party achieve lower procurement savings than more competitive authorities, with the difference as much as £2.6bn a year, according to an Electoral Reform Society analysis of local government accountability. The report examined over 132,000 public procurement contracts between 2009 and 2013 for councils in England outside London. The examination found that “one-party councils” typically achieve lower price savings in these deals - 2.2% compared to 6.2% where there is greater political balance. In addition, ‘red flags’ for corruption - such as where only a single bid is submitted or there is a shortened length of time between advertising the bid and the submission deadline - were around 50% higher.</p>
How does this impact Oxford?	The Councils majority party hold 33 of the 48 seats and therefore this is a clear majority party. Whilst the evidence in the report may be challenged, it is worth noting this as it is in the public domain and therefore majority Councils may face greater scrutiny on this.
Where to find out more	http://www.publicfinance.co.uk/news/2015/10/one-party-councils-less-efficient-ers-finds

DISTRICTS CALL FOR SIMPLIFICATION OF PLANNING PROCESS

What's the update?	<p>District councils have called for the process by which local plans are adopted to be overhauled through improved scrutiny and the creation of a national list of development policies. In a submission to the government review of the planning process, the District Councils Network said the adoption of local plans could be quickened if they were simplified, with more flexible use of ‘supplementary’ documents that could be more readily updated.</p>
How does this impact Oxford?	If the submission to the Government is acted upon then future planning decisions may be simplified and this could provide greater clarity over project approvals for the Council especially during a time when large capital projects are planned.
Where to find out more	http://www.publicfinance.co.uk/news/2015/10/districts-call-simplification-planning-process

APPENDIX I - AUDIT SURVEY DETAILED RESULTS

After each completed review we request that all those involved complete an online survey which captures the auditees views on the internal audit service. The views are captured in the three areas of: audit planning, fieldwork and reporting. The table below details the results of feedback for completed reviews.

	Accounts Payable		Accounts Receivable		SIGMA System		Finance Systems	HCA Compliance	
AUDIT PLANNING									
Was the Terms of Reference aligned to strategic/departmental risks?	Agree	Strongly Agree	Agree	Strongly Agree	Agree	Agree	Strongly Agree	Strongly Agree	Agree
Was the timeline of events through to reporting agreed and clearly explained?	Agree	Strongly Agree	Strongly Agree	Agree	Agree	Agree	Agree	Strongly Agree	Agree
How would you rate our understanding of your business through our input in conversations and correspondence?	4	5	5	4	4	4	4	4	4
AUDIT FIELDWORK									
How would you rate communication with regards to the progress of the audit and, if applicable, any significant issues identified?	4	5	5	4	4	4	4	4	5
How would you rate the closedown meeting in terms of discussing and agreeing findings?	4	5	4	4	4	4	4	4	5
How would you rate the audits contribution to delivering added value and insightful experiences?	4	4	4	4	4	4	4	4	5
AUDIT REPORTING									
Was the final report clear and concise?	Agree	N/A	Strongly Agree	Agree	Agree	Disagree	Agree	Agree	Agree
Was agreement with all key stakeholders obtained prior to final distribution?	Agree	Strongly Agree	Strongly Agree	Agree	Strongly Agree	Agree	Agree	Strongly Agree	N/A
Where recommendations were made, were they constructive and practical?	Agree	Strongly Agree	Strongly Agree	Agree	Agree	Agree	Agree	Strongly Agree	N/A
Did our work add value?	Agree	Agree	Strongly Agree	Agree	Strongly Agree	Agree	Strongly Agree	Strongly Agree	N/A
How would you rate the overall audit experience?	4	4	4	4	4	4	4	4	4

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KEY

Strongly Disagree, Disagree, Agree, Strongly Agree
1 (poor), 2, 3 (average), 4, 5 (exceptional)

APPENDIX II - DEFINITIONS

The below table sets out the definitions for the assurance levels and recommendation significant we issue in our audits.

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

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Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.



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