

OXFORD CITY COUNCIL

# INTERNAL AUDIT PROGRESS REPORT

November 2018/19

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# PROGRESS AGAINST PLAN

## Internal Audit

This report is intended to inform the Audit and Governance Committee of progress made against the 2018/19 internal audit plan, which has been approved by Audit and Governance. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, 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 section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". 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.

## Outstanding from 2017/18 audit plan

The following 2017/18 audit reports have now been issued in Final and the executive summaries included in this report:

- Income Generation
- Budget Management.

There is one report still outstanding in respect of the Councils processes towards compliance with the Payment Card Industry Data Security Standard (PCIDSS), a worldwide standard that was set up to help businesses process card payments securely and reduce card fraud. This was mutually agreed to be deferred to be completed in 2018-19 due to new regulations being released

## Overview of 2018/19 work to date

The following 2018/19 audit reports have now been issued in Final and the executive summaries included in this report:

- Audit 1. Car Parking
- Audit 4. Risk Management
- Audit 8. Members Allowances and Budgets
- Audit 14 and 15. Capital Pooling Return [currently being finalised - verbal update to Committee] and DFG Claim [finalised and no issues to report].

## We are also presenting separately to this Committee:

- Follow up of recommendations report

# INTERNAL AUDIT OPERATIONAL PLAN 18/19

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion Design	Opinion Effectiveness
<b>Audit 1. Car Parking</b>	15	Stephen Clarke	✓	✓	✓	Substantial	Substantial
<b>Audit 2. Data Analytics</b>	15	Nigel Kennedy	✓	✓	[Nov 18]		
<b>Audit 3. ICT Service Desk</b>	15	Helen Bishop	✓	✓	[Dec 18]		
<b>Audit 4. Risk Management</b>	15	Nigel Kennedy	✓	✓	✓	N/A	N/A
<b>Audit 5. General Ledger</b>	12	Nigel Kennedy	✓	✓	[Dec 18]		
<b>Audit 6. Accounts Receivable</b>	15	Nigel Kennedy	✓	✓	[Nov 18]		
<b>Audit 7. Project Management (Capital)</b>	15	Helen Bishop	✓	✓	[Nov 18]		
<b>Audit 8. Members Allowances and Budgets</b>	12	Anita Bradley	✓	✓	✓	Moderate	Moderate
<b>Audit 9. Investment Properties</b>	12	Nigel Kennedy	✓	✓	[Nov 18]		
<b>Audit 10. Retention</b>	12	Helen Bishop	✓	✓	[Nov 18]		
<b>Audit 11. Customer Service</b>	12	Helen Bishop	✓	✓	[Nov 18]		
<b>Audit 12. Fusion Partnership</b>	15	Ian Brooke	✓	✓	[Dec 18]		
<b>Audit 13. Companies Oversight Review</b>	15	Nigel Kennedy	✓	[Q4]			
<b>Audit 14 and 15. Capital Pooling Return and DFG Claim</b>	12	Nigel Kennedy	✓	✓	✓	N/A	N/A

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# EXECUTIVE SUMMARY - CAR PARKING

## EXECUTIVE SUMMARY

### PURPOSE OF THE AUDIT:

The purpose of the audit was to review the control design and effectiveness with regards to the Council's Car Parking system.

### LEVEL OF ASSURANCE:

Design	SUBSTANTIAL	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	SUBSTANTIAL	The controls that are in place are being consistently applied.

### SUMMARY OF RECOMMENDATIONS:

High	0
Medium	0
Low	3

TOTAL NUMBER OF RECOMMENDATIONS: 3

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## BACKGROUND:

Oxford City Council (the council) are responsible for 26 car parks made up of both on street and off street car parks. The council's car parks consist of car parks situated in the centre of Oxford, outside of Oxford, park and ride sites and also public park sites. The council is also responsible for the following functions: the shop mobility function, the management of the cash collection service provided by Jade security services and the enforcement function. The Council have a contractual arrangement in place with Jade Security services who are required to collect cash from car parking machines and subsequently bank the cash collected. The Council is responsible for ensuring the cash banked by Jade security services reconciles to the cash collection reports, this process is conducted on a daily basis. Where there are discrepancies these are investigated by car park management.

It was recognised in June that the forecasted income for 2018/19 is £6.8m, which is a reduction of £700k from the approved budget. This decline coincides with the opening of the Westgate shopping centre and data suggests that the customers that would have previously utilised Worcester Street are now migrating to the new Westgate car park, which is having a significant impact on income. Worcester Street and Gloucester Green car parks usage has reverted to its 2014/15 levels and the sites are unlikely to recover in the short term and as a consequence, it has been recommended that car parks income should be reduced by £700k.

Our 17/18 audit in Car Parking identified a substantial design of controls to manage the daily operations of the Council's parking arrangements and through testing and observation we did not identify any high recommendations or significant instances of non-compliance of controls in place. The only one low level findings related to

- Parking debts that are to be passed on to the Council's bailiffs are not monitored and submitted in a timely manner.

## GOOD PRACTICE:

Throughout the review a number of good practice points were identified. These points demonstrate the commitment to strong internal controls and have helped inform the final audit opinion. Specifically:

- Documented procedure notes are in place for the overview of the car parking team's roles and responsibilities.
- There are appropriate arrangements in place between Jade Security Services and Oxford Direct Services Limited regarding the collection and banking of cash in a timely manner.
- For a sample of 15 parking notices issued from 1 April 2018 to the date of the audit, payments could be clearly traced through the parking management system (Imperial) and it was confirmed that discounts were appropriately applied when required.
- 98% of total machine faults reported during the months of April, May, June and July 2018 were responded to/repared within two hours.
- The service level agreement between the Council and Oxford Direct Services Limited was confirmed to adequately document the partnership between the contractor and the Council in regard to the operation of the Council's car parks.
- Monthly meetings are held between the car parking manager and the Council's finance officers to discuss financial performance.

## KEY FINDINGS:

However, certain areas of improvement have been identified and are highlighted in more detail in this report. In summary these are:

- Parking debts are not always submitted for debt recovery in a timely manner (Low Finding)
- Reconciliations of audit tickets to information produced by Jade Security Services are not always signed as approved by management (Low Finding)
- Faults with ticket machines are not always addressed within two hours (Low Finding).

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## CONCLUSION:

In conclusion, the audit has evidenced that there is a robust system of internal controls in place relating to car parking arrangements across the different areas audited. However, a small number of areas for improvement have been identified, with three low level findings being raised. These relate to incidental lack of segregation of duties, parking debts that are to be passed on to the Council's debt recovery officers not being monitored or submitted in a timely manner and ticket machine faults not always being addresses within two hours of report received. Consequently, this report concludes substantial assurance over both the design and operational effectiveness of the internal controls in place - actions have been agreed. Implementing the below recommendations will further improve the operations and performance of the service.

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# EXECUTIVE SUMMARY - RISK MANAGEMENT

## EXECUTIVE SUMMARY

### CRR REFERENCE:

Efficient Council

### BACKGROUND:

Oxford City Council has in place a Risk Management Strategy and Operating Framework that outline the Council's approach. The Council maintains a corporate risk register (CRR) which is reviewed on a quarterly basis at the Audit and Governance Committee. The CRR is also reviewed at the Corporate Management Team (CMT) meetings, and red risks are also reported to the City Executive Board (CEB). Service Risk Registers (SRRs) are kept by each department. The CRR and SRRs are managed via the CorVu system.

During our review, we

- Analysed the results of a survey on risk management which was completed by 32 respondents
- Interviewed seven individuals of varying departments and levels
- Reviewed the risk registers
- Reviewed SMT, CMT, Audit and Governance and CEB minutes.

Our review sought to obtain a clear understanding, and identify opportunities for improvement, around: general risk management; whether the risk registers corresponded to the Council's objectives and actual risks facing the Council; whether risks are reviewed on a regular basis and controls stated are appropriate, and that escalation and management review of risk is sufficient. As this is an advisory report, an assurance opinion is not given.

### GOOD PRACTICE:

The review found some excellent areas of practice with regard to risk management:

- The survey revealed extremely positive attitudes amongst staff with regard to the risk management processes in place at the Council. Respondents were asked whether they strongly agreed, agreed, disagreed or strongly disagreed with a number of statements. All statements were answered with a positive majority. The full survey results can be found in Appendix I
- Clear processes and mechanisms are in place for the management of risk across the Council
- All staff interviewed were confident in discussing risk and felt that generally there was a good tone from the top with regard to risk
- Risks and mitigating controls are assigned to owners.

Finding	Recommendation	Management Response	Responsible Officer	Implementation Date
1	<b>Consistency of Understanding Around Risk Ratings</b>  The Risk Group should be re-established and it should re-	The Risk Group is in the process of being reconstituted and membership thereof reviewed. New terms of	Bill Lewis	November 2018

	<p>assess the CorVu risks scored in light of this review to achieve consistency in the application of gross/net scores (or re-define its current method). Example Terms of Reference can be found at Appendix V. The Council should consider expanding its risk appetite statement in line with the COSO approach, detailed in Appendix III.</p>	<p>reference are being drawn up.</p> <p>The Risk Group will review service risk registers on a rolling programme for consistency, wording and completeness</p> <p>The next iteration of the risk management strategy will clarify the risk rating definitions and then this will be followed up with training</p>	<p>Bill Lewis</p> <p>Bill Lewis</p>	<p>December 2018</p> <p>March 2019</p>
2	<p><b>Corporate Risk Register</b></p> <p>The risk wording and mitigating controls should be reviewed and potentially reworded. If, from the benchmarking information provided the Council feels that any areas have been neglected on the risk register, it may wish to add new risks.</p>	<p>The Council's Corporate Risk Register is currently being fully reviewed.</p>	<p>Bill Lewis</p>	<p>November 2018</p>
3	<p><b>Service Risk Registers</b></p> <p>It is recommended that each Service review its Service Risk Register. Where relevant, risks should be reworded and mitigating controls should be SMART. The re-established Risk Group should analyse the reviewed SRRs to identify any gaps or risks that should be closed, challenge any risk ratings they feel may not be appropriate, and include any relevant SRR risks as wider CRR risks.</p>	<p>Each service is required to review its risk register every year. This is the responsibility of the Head of Service. The risk group will review risk registers on a rolling programme.</p>	<p>Alison Nash</p>	<p>November 2018</p>
4	<p><b>Project and Partnership Risks</b></p> <p>It is recommended that the Council assesses how best to integrate project and partnership risk registers with the SRRs/CRR risk management process, to allow increased transparency of cross-cutting risks. There are different ways to do this and the Council is best placed to decide how it would like to approach it, but some thoughts are provided in the report.</p>	<p>Partnerships and projects are managed within services and risks will appear within the relevant risk register if appropriate. Significant partnerships - i.e. Fusion - have a joint risk register and these will be reviewed by the Risk Group. (NB this has happened in the past). Major projects will now also be reviewed by the risk group.</p>	<p>Bill Lewis</p>	<p>November 2018</p>

	<p>The Risk Management Strategy should state what the Council's expectations for risk management with regard to projects and partnerships are. For example, a standardised risk management process for partnerships could be included in all Service Level Agreements / contracts. This would include setting out a process for risk identification at the beginning of a project, both from the Council's perspective, and as a joined up perspective with the partner organisation.</p>			
5	<p><b>Management Review and Monitoring of Risks</b></p> <p>The corporate risk register should be a standing agenda item at the SMT meetings on a quarterly basis, per the Strategy. Discussion should include considering the reasons for any changes in risk ratings, the appropriateness of the risk ratings, whether the Service Heads/Directors believe there is anything missing from the CRR and monitoring the effectiveness of the controls in place.</p>	<p>This will be discussed and implemented if feasible</p>	<p>Bill Lewis</p>	<p>December 2018</p>
6	<p><b>Training</b></p> <p>The Council should provide a risk management training session within the next six-eight months. This could be provided either by internal staff or external risk management specialists. This would help address some of the issues identified by the survey and our interviews, such as:</p> <ul style="list-style-type: none"> <li>• Ensuring staff are confident and consistent about what is meant by 'current' and 'residual' risk, and if the target risk score element is to be introduced, clarifying this process</li> <li>• How to word risks</li> </ul>	<p>Risk management has already been added onto the member training programme for the autumn. Staff training will be provided and will investigate whether it can be compulsory for all people entering onto Corvu / senior managers.</p>	<p>Bill Lewis</p>	<p>March 2019</p>

	<ul style="list-style-type: none"> <li>• How to write SMART mitigating controls</li> <li>• How the risk escalation process works</li> <li>• What the Council's general risk appetite is</li> <li>• More detail on when risks should turn red, to ensure that the CEB has a clear view of risks that need more scrutiny within a reasonable time-frame.</li> </ul>			
7	<p><b>Risk Management Strategy</b></p> <p>Management may wish to consider adding the points raised into the Risk Management Strategy.</p>	<p>This will be discussed by the Risk Group once established, and where the Group agrees the Risk Management Strategy will be updated.</p>	Bill Lewis	November 2018
8	<p><b>Assessing Risk Management Effectiveness</b></p> <p>The Council could analyse the changes in the risk registers over the year (on an annual basis) to identify: where risks have crystallised; issues have occurred where the risk wasn't identified, and any lessons learnt from this. CorVu reports on risk management could be generated on a bi-annual basis.</p>	<p>Could use Q4 as a bit more of a wrap-up of the year - overall annual summary. Subject to comment above will look at this for 2018/19 year.</p>	Alison Nash	August 2019

# EXECUTIVE SUMMARY - MEMBERS ALLOWANCES AND BUDGETS

## EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX IV FOR DEFINITIONS)

Design	Moderate
Effectiveness	Moderate

## SUMMARY OF RECOMMENDATIONS:

High	0
Medium	3
Low	0

TOTAL NUMBER OF RECOMMENDATIONS: 3

## CRR REFERENCE:

Efficient Council

## BACKGROUND:

Members' allowances are remunerations paid by a local authority to its elected members. The legislation governing this is the Local Government Act 2000 and the Local Authorities (Members' Allowances) (England) Regulations 2003.

Oxford City Council pays its members a basic allowance of £5016 in 2018/19 (£4954 in 2017/18). There are forty-eight members and approximately 161,300 residents (Oxford Profile 2017); £1.49 per resident therefore covers the basic allowance of the 48 councillors.

The Council's Constitution details the additional special responsibility allowances (SRAs) for specific roles (for example Council leaders, civic post holders, Chairs of committees, City Executive Board members etc.). In November 2017 the Council's Independent Remuneration Panel recommended the following which have been added to the 2018 Constitution:

- The addition of a Special Responsibility Allowance (SRA) for the non-statutory Deputy Leader;
- The introduction of a scheme for maternity and adoption leave for Members in receipt of a Special Responsibility Allowance; and
- That a contingency fund should be made available for the cost of reasonable adjustments for Members who have a disability.

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Members are also able to claim travel and subsistence expenses when undertaking certain pre-arranged duties outside of Oxford.

In 2017/8, the total cost of Members allowances, including special allowances and permitted expenses, was £356,903.47 (£2.21 per resident).

Members are also allocated ward members budgets (WMB) (currently £1500 per councillor per year) for expenditure related to the economic, social or environmental well-being of their ward. Members representing unparished wards are also allocated Community Infrastructure Levy (CIL) monies, (currently £2500 per councillor per year) to support the provision of infrastructure through purchase, renewal, replacement or maintenance. The application process for both is similar; the Member completes an application form which must be approved by the Monitoring Officer, the Chief Finance Officer, and where appropriate, the Head of Planning, Sustainable Development and Regulatory Services. Once approved, a call-in email notification is sent to the other Members to ensure there are no objections to the spend. In 2017-8 the total monies spent as part of the Ward Member Budget was £33,709.08 (£702.27 per councillor on average) and for CIL, £36,309.85 (£756.46 on average per councillor in unparished wards).

The risks this review addressed were:

- The Council does not have a policy governing members allowances; the rates used for Members' allowances are not in line with the rates per the Independent Remuneration Panel;
- Allowances are incorrectly paid to Members as per their agreement with the Council;
- Expenses are not supported by sufficient evidence prior to authorising reimbursement
- Members' Ward Budgets/CIL monies are not supported with appropriate evidence when applying or after to ensure it is in line with Council expectations.

During our review, we tested 100% of the Members' basic and special allowances, and took a sample of applications for ward Member budget, CIL and expenses, to ensure they had been processed per the Council's guidelines.

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#### GOOD PRACTICE:

The following areas of good practice were identified:

- The Council has up-to-date policy information regarding Members' allowances and expenses within its Constitution
- The Council has a Ward Member Budget and CIL guidance note which outlines the process and approvals process for application of these funds
- The rates used for Members' allowances is in line with the 2014 and updated 2017 Independent Remuneration Panel reports
- All expenses tested were supported by sufficient evidence and were reasonable and appropriate
- All CIL applications were in wards not covered by a Parish Council, and all WMB applications were circulated to all Members via the call-in email

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## KEY FINDINGS:

During our review the following areas of improvement were identified:

- Two exceptions were found during the testing of allowance values (one over-payment of special allowances, and one non-deduction for less than two-thirds attendance of a Committee meeting that attracted a special allowance) (Finding 1 - Medium)
- Two CIL applications did not have explicit approvals from the Legal team and two did not have explicit approval from the Finance team. (Finding 2 - Medium)
- The application forms for CIL and Ward Member Budgets (WMB) are completed to varying standards of quality (Finding 2- Medium)
- There is no follow-up process to ensure that WMB and CIL monies are being used per the request. There is also no limit on the number of times Members can roll-over unspent WMB/CIL monies (Finding 3 - Medium)

## ADDED VALUE

In light of the fact that the Council does not have controls in place for the follow-up of Ward Member Budget and CIL expenditure, we have provided some example practices in Appendix II, along with benchmarked information relating to carry-forward practices, spending criteria for WMB, and the setting up of a taxi account (one has been established for use by members with a temporary or permanent disability). Appendix III also provides an updated application form for WMB.

## CONCLUSION:

Overall the Council has strong controls in place with regards to the payment of Members' allowances and expenses. Testing demonstrated that 96% of allowances were calculated correctly and 100% of expenses could be supported with receipts and forms. However, with regard to WMB and CIL applications, exceptions were found in relation to approvals, there is a variance in the completeness and detail of application forms, and there is also no follow-up process to ensure expenditure was spent as anticipated. This leads us to conclude that both the control design and control effectiveness is moderate.

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# EXECUTIVE SUMMARY - INCOME GEN.

## EXECUTIVE SUMMARY

### STRATEGIC OBJECTIVE

Working with neighbouring Councils and our partners to ensure that Oxford has greater control over decisions on investment and services

### BACKGROUND:

Generating income is an ever greater challenge and opportunity for local government and central government funding reduces. Many authorities are now focussing on how income can be generated from services they already provide by marketing it to other interested parties i.e. other Council's. Direct services are those which have to be provided to support the service delivery the Council offers i.e. repairing Council buildings or charging for Council Tax; non-Direct Services are all other services.

The Council have already begun this process as they are engaged in offering the following services to other Council's:

- HR Services
- Procurement
- Counter Fraud
- Law and Governance (via a local Council Hub).

The Council aim to maximise the opportunities that are present from these avenues (and other options) where it is in line with their objectives and makes resource and financial sense.

### OVERVIEW

The Council has set up Local Authority Trading Companies (LATCos) to enable all its Direct Services to compete and trade in the market. This audit looked at the non-Direct Services including HR, Procurement, Building Control, Planning, Law & Governance and Counter Fraud, to provide assurance on whether the Council has maximised the opportunities to generate income. The non-direct services involve both regulatory services (only cost recovery price could be charged) and other trading services where the Council can achieve surplus.

**This audit has adopted a different method of analysing individual department differently and providing recommendations respectively. We have not reported a level of assurance**

#### Counter Fraud

- Good Practice - the Council's Counter Fraud Team has delivered leading counter fraud services both in house and to the other local authorities and innovated to become one of the most successful counter-fraud teams in the UK. Income target of £60k for 17/18 has already been achieved. The Team researched into local authority resources in the UK, conducted detailed SWOT analysis and undertook a four year business plan
- Recommendation - A detailed tracker should be prepared in the Team to show working progress of each contract/project, with income invoiced and actual cost incurred specified

#### Environmental Health Service

- Good Practice - The service manager conducted market research; benchmarked the Council's performance and income level against neighbour councils; conducted detailed SWOT analysis for the service; and closely monitor the KPIs in each service streams on monthly basis as well as customer feedbacks. N.B The Council have already began benchmarking
- Recommendation -The fee quote schedules should be prepared for all building control projects to ensure costs are recovered from the agreed fees

Planning

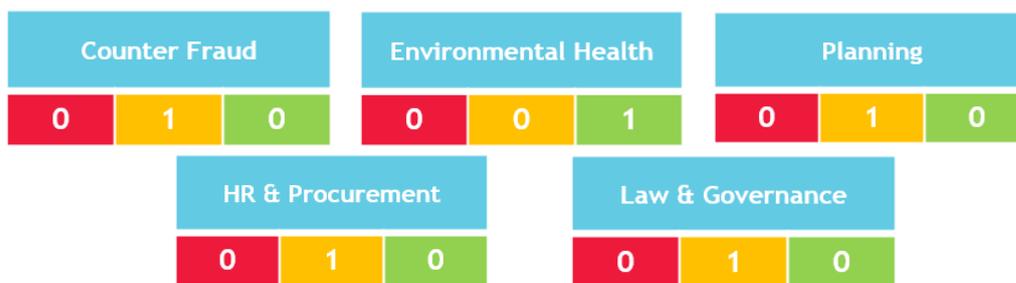
- Good Practice - Planning fees in England are set nationally by the government. Pre-application advice is the resource to generate income in the Planning team. A detailed project tracker and pricing schedule are completed by the Team. KPIs are monitored and reported monthly
- Recommendation - Pre-application advice fees should be reviewed for 18/19. Please see slide six for Price benchmarking with similar Councils

Law & Governance

- Good Practice - An Oxfordshire Legal Hub has been established in 2010 - a collaboration between the Oxfordshire authorities' legal teams to aide resilience, creating some external income and take a step towards a 'shared service'. The operating model was based on a "peaks and troughs" joint utilisation of the Authorities' resources
- Recommendation - As income has been decreased significantly since 2013, potential income generating options should be evaluated again and best practice from comparative local authorities should be learnt by the Council.

HR and Procurement

- Finding and Recommendation - HR had discussion with Hampshire County Council to provide services but the plan was ruled out due to capacity and resources issue. Procurement had experience in providing service to Oxford shire County Council in previous years but terminated due to recourses issue. Detailed opportunity and capacity assessment should be undertaken in the departments



**ADDED VALUE**

We have benchmarked the prices the Council is charging for number of the current services against a group of similar Councils. We have also provided a best practice map for income generation schemes adopted in other Councils in the country that the Council could adopt.

# EXECUTIVE SUMMARY - BUDGET MGT

## EXECUTIVE SUMMARY

### LEVEL OF ASSURANCE:

Design Substantial

Effectiveness Moderate

### SUMMARY OF RECOMMENDATIONS:

High 0

Medium 1

Low 1

TOTAL NUMBER OF RECOMMENDATIONS: 2

### BACKGROUND:

Oxford City Council (the council) budget process consists of two stages: budget preparation and budget monitoring. The council's budget preparation commenced in October 2017 and concluded in December 2017. The budget was approved by members and finalised in February 2018. The council have begun their budget preparation for 2018, leading discussions on the budget proposals for each service area.

The budget preparation consists of the following stages:

- Business partners liaise with their corresponding service area managers. Business partners will encourage discussions around the pressures, income and expenditure, and current developments relating to their service area. Subsequently, draft budget proposals are collated and presented for discussion with the s151 officer and Management Accounting Manager. The business partners and service heads are expected to have sound knowledge of their budget proposal
- Initial meetings are held with the s151 officer, Management Accounting Manager, the corresponding business partner and head of service. The draft budget is reviewed and challenged where required
- The Chief executive (CHEX) and directors, heads of services and the s151 officer will review the budget for each service area and challenge accordingly
- The final budget proposal is presented to members and the public whereby, an agreement is made in December. The Budgets are finalised in February of each year.

This review carried out observations of the first stage of the budget review meetings. Discussions were held with business partners to understand the composition of the draft budget and establish the involvement of wider stakeholders. We also established whether the budgets set provided the best possible outcome for the service area and the wider council.

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#### GOOD PRACTICE:

The council have a detailed budget process timetable, detailing the dates of the first, second and third stage meetings for each service area

- Both heads of service and the business partners used sufficient information to produce the initial draft budget
- There is adequate escalation of budget concerns whereby, concerns and opportunities can be escalated to the s151 officer within the first stage of the budget process. Subsequently, the s151 officer is able to escalate concerns or opportunities to the second stage of the budget process, which includes discussions with the CHEX and Directors.

#### KEY FINDINGS:

Detailed Finding 1 - In some instances heads of service were unaware of the composition of the base budget; they appeared to be less familiar with current events encountered within the service area and were unaware of changes made to the budget from the previous year.

Detailed Finding 2 - Discussions with business partners found trends to exist within the following areas: Service area objective vs corporate objectives, budget setting timescale and capital vs revenue.

#### CONCLUSION:

Overall, the council has demonstrated that it has robust procedures in place for the preparation and monitoring of the budget process. Although, these procedures are effective, some service area managers require further training to be able to establish the correlation between; setting the service area objective and the impact their decisions have on the overall budget proposal and the councils corporate objectives.

In addition, management and heads of service should manage timescales more appropriately to give themselves and wider stakeholders the opportunity to reflect on where cost savings and capital investment can be made. As a result, we have concluded on a Substantial opinion on the design and Moderate opinion on operational effectiveness of the system.

# APPENDIX I - DEFINITIONS

APPENDIX III - DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS	DESIGN	FINDINGS	EFFECTIVENESS
<b>Substantial</b>	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.
<b>Moderate</b>	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.
<b>Limited</b>	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.
<b>No</b>	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.
RECOMMENDATION SIGNIFICANCE				
<b>High</b>	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.			
<b>Medium</b>	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.			
<b>Low</b>	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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