

OXFORD CITY COUNCIL

INTERNAL AUDIT PROGRESS REPORT

JULY 2019 - 20

CONTENTS

Progress against internal audit plan	3
Executive Summary - Companies Review Oversight 18/19	5
Executive Summary - Accounts Payable 19/20	8
Executive Summary - Contract Management 19/20	11

Appendices:

Definitions of assurance	14
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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 2019/20 internal audit plan. 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 2018/19 audit plan

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

- Companies Review Oversight

Overview of 2019/20 work to date

All Terms of Reference have been completed for the year except for Graffiti and Street Appearance, and Enforcement Restructure which are currently a work in progress.

The following 2019/20 audit reports have now been issued in Final and the executive summaries included in this report:

- Accounts Payable
- Contract Management

We are also presenting separately to this Committee:

- Follow up of recommendations report
- 2018/19 Annual Opinion.

INTERNAL AUDIT OPERATIONAL PLAN 19/20

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion Design	Opinion Effectiveness
Audit 1: Accounts Payable and Procurement	18	Nigel Kennedy	✓	✓	✓	Moderate	Moderate
Audit 2: ICT General Control	12	Nigel Kennedy	✓				
Audit 3: Collection Fund	12	Nigel Kennedy	✓				
Audit 4: Treasury Management High Level	8	Nigel Kennedy	✓				
Audit 4: Health and Safety and Fire Safety	13	Helen Bishop	✓	✓			
Audit 5: Contract Management	15	Nigel Kennedy	✓	✓	✓	Moderate	Moderate
Audit 6: High Level Business Continuity, Disaster Recovery and Emergency Planning Review	12	Helen Bishop	✓				
Audit 7: Corporate Performance	13	Helen Bishop	✓				
Audit 8: Enforcement Restructure	12	Nigel Kennedy	✓				
Audit 9: Events Management	12	Ian Brooke	✓				
Audit 10: Graffiti and Street Appearance	10	Ian Brooke	✓				
Audit 11: Housing Rents System	12	Stephen Clarke	✓				
Audit 12: Environment	15	Nigel Kennedy	✓				
Audit 13: Fusion follow-up	4	Ian Brooke	✓				
Audit 14: Election Accounts	12	Anita Bradley	✓	✓			
Audit 15: Mapping Review	15	Nigel Kennedy	✓	✓			

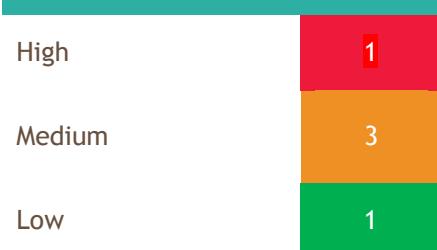
EXECUTIVE SUMMARY - COMPANIES REVIEW OVERSIGHT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I FOR DEFINITIONS)



TOTAL NUMBER OF RECOMMENDATIONS: 5

CRR REFERENCE:

Efficient Council

BACKGROUND:

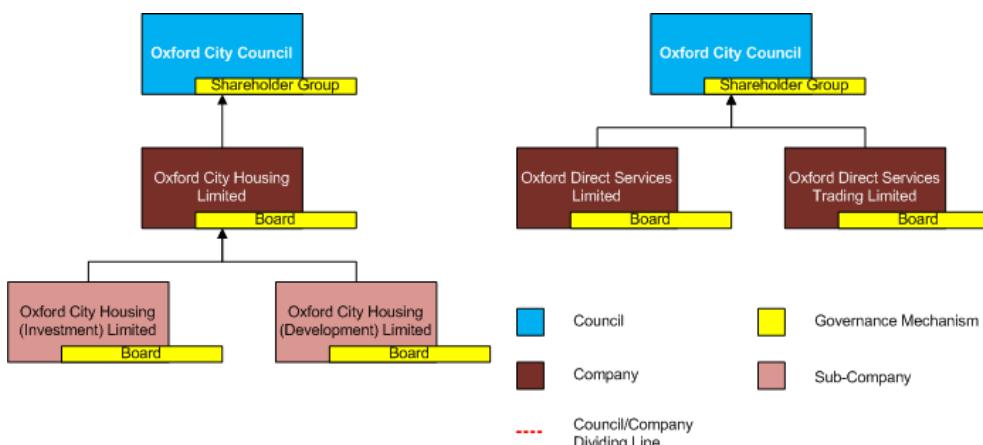
Oxford City Council has established two trading ventures - Oxford City Housing Ltd and Oxford Direct Services Ltd.

Oxford City Housing Ltd is 100% owned by the Council and was established for the acquisition of new affordable homes, development, the purchase of Council void properties and proposed estate regeneration projects

Oxford Direct Services is 100% owned by the Council and provides services such as: waste and recycling; streetscene; parks and open spaces; building works, car parks management, highways and engineering; motor transport; pest control.

Five separate companies are grouped under these ventures. The Council's governance arrangements for both ventures are summarised in Figure 1.

Figure 1 - Oxford City Council governance arrangements for Oxford Direct Services and Oxford City Housing



Between December 2017 and January 2018, BDO undertook a review of the Council's governance of Oxford Direct Services and Oxford City Housing. The Council was seeking assurance regarding the process it had followed to set up and oversee both ventures. The report made 12 recommendations (8 medium and 4 low) - all of which the Council accepted.

A year on from BDO's initial review, both Oxford Direct Services and Oxford City Housing are more mature ventures. The purpose of this report is to follow-up, where appropriate, on the recommendations made in BDO's previous report. This report also reviews, at a high level, the Council's oversight arrangements of two additional joint ventures:

- Barton Oxford LLP - A partnership between the Council and Grosvenor Ltd to develop land in the Barton area of Oxford;
- OXWED - A joint venture between the Council and Nuffield College Oxford to develop land in the Oxpens area of Oxford.

GOOD PRACTICE:

We have identified the following areas of good practice from this review:

- Oxford Direct Services Limited and Oxford Direct Services Trading Limited are on course to deliver the financial return anticipated from the Council in 2018/19. Oxford City Housing Limited have continued to progress sites agreed in its business plan and have recently acquired additional properties as part of the development on the Council's former land at Barton.

- The Council's Shareholder Board receives a regular and standardised set of information on the financial and non-financial performance of both Oxford Direct Services Limited and Oxford Direct Services Trading Limited. This information is sufficient for the Shareholder Board to scrutinise the performance of both companies. The Council has also established a Companies Scrutiny Panel to provide a forum for backbench Members to scrutinise the performance of both companies.
- The way in which the Council's Shareholder Board receives financial information regarding Oxford Direct Services Limited will enable it to scrutinise whether or not the company is breaching the turnover requirements associated with its Teckal status. This is because the financial reporting differentiates the turnover the company derives from external sources and internal sources.
- The Council and Oxford City Housing Limited have agreed Service Level Agreements for the provision of major projects, landlord services, democratic services and financial services from the Council to the company. There is evidence that the Council has been charging the company for these services during 2018, and that the company has been paying invoices associated with the Council's provision of these services
- Costs incurred by the Council in setting up Oxford Direct Services Limited and Oxford Direct Services Trading Limited have been transferred to respective companies with a requirement to pay back these set up costs in addition to any return required by the Council's Medium Term Financial Strategy.
- The return the Council requires from Oxford Direct Services and Oxford Services Trading Limited in order to meet the expectations set out in the Medium Term Financial Strategy is also reflected in the business planning documentation of those companies.
- There is evidence that the Council has regularly reviewed the skills required for the Boards of its companies to be effective. For example, it is currently considering the appointment of Non-Executive Directors and appointed a Finance Director to cover Oxford Direct Services Limited and Oxford Direct Services Trading Limited.

KEY FINDINGS:

We identified the following areas for improvement:

- Whilst the Council's two joint ventures - Barton Oxford LLP and OXWED - have a range of governance documentation and processes in place, and informal channels to report progress to the Council, the Council should formalise how both joint ventures report into Shareholder Board. Shareholders for both organisations within the Council have yet to receive any reports and Barton and Oxwed have been in operation since 2011 and 2013 respectively
- Whilst the Council's Shareholder Board has received regular financial and non-financial reporting on Oxford City Housing Limited and associated group companies, the unclear strategic direction of those companies - stemming from central government policy changes - have hindered the development of a business plan which accounts for the tax liabilities and running costs of that company. As and when the Council decides on the clear strategic direction of Oxford City Housing Limited, a revised business plan should be produced which does take account of, and clearly identify, these costs.
- The four Service Level Agreements between Oxford City Housing Limited and Oxford City Council have been agreed by both parties, but not yet signed by both parties. These Service Level Agreements cover major projects, landlord services, democratic services and financial services.
- The Council has not implemented the recommendation made in BDO's 2018 companies review that it should - "formally agree a position on whether an order book loan is required between the Council and Oxford Direct Services Limited".

ADDED VALUE

In addition to following up on areas of interest identified by BDO's previous review into the Council's wholly-owned companies, BDO also considered the governance arrangements for the Council's two joint ventures (OXWED and Barton Oxford LLP). Findings regarding the governance of these joint ventures are included in the section above.

CONCLUSION:

The Council has implemented the significant majority of recommendations made by BDO's last report on company governance. The Council's companies have clear reporting routes into the Council, which allow the Council to discharge its role as shareholder and have good oversight over its investments. However, there do remain some issues regarding agreement of Service Level Agreements between the Council and its companies and the ongoing design of how Oxford City Housing Limited reports to the Council's Shareholder Board which should be clarified once the future strategic direction of the company is resolved. Furthermore, the Council does not currently have comparable arrangements in place for its two joint ventures (OXWED and Barton Oxford LLP) to match the good practice oversight of its wholly-owned companies. Oxford Direct Services Limited is on course to deliver its financial target for 2018/19. Oxford City Housing Limited has had to revise its projected financial performance but this is due to the shareholder needing to resolve strategic questions about the strategic direction of the company rather than the governance of the company itself. We have therefore provided moderate assurance on both control design and operational effectiveness.

EXECUTIVE SUMMARY - ACCOUNTS PAYABLE

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS



TOTAL NUMBER OF RECOMMENDATIONS: 6

CRR REFERENCE

CRR - 032 - 1819

BACKGROUND

Accounts Payable

Oxford City Council (the Council's) main financial system is Agresso within which Accounts Payable (AP) transactions are recorded. In 2013 the Council rolled out the Agresso Purchase to Pay (P2P) module that included: invoice entry using scanning technology, electronic purchase ordering with built in workflow and a contracts module. The main aim of P2P was to aid the Council in its end-to-end process of purchasing its goods and services and paying for them in a timely manner. There have not been any upgrades to the Agresso system since 2016.

The Central Team is led by the Strategic Procurement and Payments Manager who is supported by the Payments Team. The Agresso system records payments via the three way match process, i.e. from the order being raised, goods receipted and payments being processed.

To support remote operations at two depots at Horspath Road and Cowley Marsh, the Council also have the systems Key2 and Servitor. Servitor is due to be replaced by Areon QL in October 2019. These systems record the process from the order being raised, goods receipted and the invoice being received. However, payments are not made from these systems. The AP025 report is run from Agresso regularly to interface the purchase orders raised from the Key2 and Servitor systems and ensure prompt payments can be made. BDO previously conducted an AP internal audit in 2017/18 and found the processes and controls within the service to have moderate control design and effectiveness.

As part of the Council's Strategic Internal Audit Plan for 2019 -20, this review focussed on adequacy of the controls for Accounts Payables and Procurement and whether the Council are paying suppliers accurately, in a timely manner, compliant with statutory regulations, and achieving value for money.

A sample of 18 payments made by the Council in 2018/19 were reviewed to assess the effectiveness of the three-way matching process built into the Agresso system.

Furthermore, suppliers can be created on Agresso and have details amended exposing the Council to the risk of fraudulent supplier changes, therefore a sample of five supplier amendments and due diligence procedures for the creation of new suppliers, including the requirements of the Modern Slavery Act and the Council's Transparency Statement 2018, were assessed.

Procurement

The Central Procurement Team manage Official Journal of the European Union (OJEU) tenders led by the Strategic Procurement & Payments Manager who works closely with the Legal Team, to ensure compliance with the Contract Procedure Rules and the Public Contract Regulations (2015). They also support departments with procurement advice on drafting specific instructions, specifications and legal requirements.

The Council's Contract Procedure Rules identify that electronic tenders must be used for contracts valued over £10,000, for which the Council use the South East Business Portal as a repository to communicate with tenderers and store documentation. This shows a clear audit trail for the procurement process.

The Council are committed to achieving value for every £1 spent, working with ethical suppliers, upholding social values and supporting growth in the local economy.

GOOD PRACTICE

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

- The Contract Procedure Rules were adequate to support the effective governance and management of procurement processes with clear guidance on procurement requirements. Furthermore, the financial regulations contained adequate information on the responsibilities of the Head of Financial Services, Head of Services, line managers and officers with regards to payments
- Documentation supporting procurements and contracts was adequate, complete and accessible
- Of the sample of five tender processes selected we noted that although all cases demonstrated compliance as per the regulations, evaluation letters for one case in particular, were detailed and gave comparative written analysis for the break-down of the tenderers performance against each of the criteria in the qualitative assessment with the successful tender. This went beyond the requirements and was an example of best practice by the Council
- Of the sample of two Interfaces selected it was noted that the interface data from Key2 and Servitor to Agresso was completed accurately and on a regular basis
- There is adequate oversight of performance monitoring by the senior management team.

KEY FINDINGS

We made the following findings:

- (Finding 1 - Medium) -There was no separation of duties in the process to amend customer details. Payments Officers had access to amend customer details and make payments without the requirement for approval.
- (Finding 2 - Medium) -The Constitution did not refer to a due diligence requirement for new suppliers despite the Modern Slavery Act and Transparency Statement 2018 committing the Council to working with ethical contractors. In one case we reviewed there was no evidence of any background checks prior to paying a supplier
- (Finding 3 - Medium) - One contract notice and award was not on the Contracts Finder system despite a contract value of more than £25,000.
- (Finding 4 - Medium) - Data for six monthly KPIs was not available in the management reports. Furthermore, one KPI (% goods received prior to invoice date) had no data available for 2018/19. The percentage of non-compliant contracts was excessively high. However, action plans were developed effectively to improve performance
- (Finding 5 - Low) - One payment was not approved by the appropriate individual as per the delegated authorities listing. Additionally, previous approvers were not recorded providing an unclear audit trail for whether adequate approval of payments by officers that have left the organisation was made. It was noted that one payment was made 55 days after the invoice was received
- (Finding 6 - Low) - The Council's Corporate Procurement Strategy requires the use of e-procurements for contracts valued at more than £10,000. This makes it non-compliant with the Public Contract Regulations (2015) which requires electronic tendering for all procurements.

CONCLUSION

Overall the Council has a moderate design of controls in place for managing Accounts Payable and Procurement. There were adequate team structures to ensure accurate and complete payments based on effective management of procurement procedures. However, we noted a number of areas where the controls could be strengthened, particularly the separation of duties between amending supplier details and making payments.

This leads us to conclude that both the control design and control effectiveness are moderate.

EXECUTIVE SUMMARY - CONTRACT MANAGEMENT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)



SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)



TOTAL NUMBER OF RECOMMENDATIONS: 5

CRR/BAF REFERENCE:

Efficient, Effective Council

BACKGROUND:

Effective contract management practices enable local authorities to continue to meet their aims and objectives. Sound contract management involves, clear policies and procedures for contract managers to follow; initial planning; initial and ongoing due diligence and an ongoing assessment of risk; the development of sound relationships with suppliers and tangible and measurable key performance indicators (KPIs). To ensure the contract meets its objective and mitigates any potential issues that arise throughout the contract, suppliers should typically report on how they are meeting the KPIs, for review by the contract managers.

Oxford City Council (the Council) enters contracts with suppliers following the procurement process, to formalise a legally binding agreement on the service provided. This includes payment mechanisms, responsibilities of both parties and warranties. During the lifetime of these contracts, the Council will monitor this and take action if the supplier is not adhering to the conditions agreed in the contract.

Performance monitoring criteria is set out in the Council's Procurement Strategy and Contract Management Framework. Supplier contracts are allocated to either Platinum, Gold, Silver or Bronze depending on their value and importance to the Council. Criteria for performance monitoring differs due to the various implications they have on the Council. The Council's website provides a link to their contracts register. As of December 2018, the Council had 354 contracts in place with suppliers.

We reviewed a sample of fifteen contracts of estimated values between £90,000 - £17,500,000, across different service areas. We tested the contracts for evidence of a signed and up to date contract which sets out clear terms and KPIs. Through discussion with contract managers we sought to understand the operational effectiveness of contractor relationships and reviewed contractor meetings minutes and performance reports, to ensure the suppliers were meeting the terms and conditions of their contract. We also reviewed the payment information for each corresponding contract to ensure they were in line with the contract and reviewed by the contract managers prior to payment.

GOOD PRACTICE:

- All fifteen contracts had a designated contract manager, who liaised with a dedicated person at the contractor organisations
- No exceptions were found during payments testing. A sample of 15 payments tested were checked by the contract managers and authorised by a designated officer within the Agresso system
- For the larger value contracts, rigorous KPI monitoring and contract management meetings were held on a monthly or quarterly basis as appropriate
- The Contract & Procurements Team were praised by the contract managers interviewed for their support and guidance. Some effective controls were in place within this team, for example, ensuring that total contract spend does not breach the OJEU threshold
- The corresponding contract managers identified contract underperformance and the evidence reviewed demonstrated how issues were raised and resolved with the contractors.

KEY FINDINGS:

- Of the sample of 15 contracts tested
 - One signed contract could not be found onsite (contract value £150,000, historically managed by Oxfordshire County Council); some contract managers did not have a copy of their contract and two contracts were not signed by the supplier. See appendix for full listing of the contracts testing (see appendix I for Audit findings on contracts tested).
 - Not all contracts contained clear KPIs and there were inconsistent approaches to performance monitoring and contract management meetings. In two instances there was no evidence of monitoring the contract (see appendix I for Audit findings on contracts tested).
 - None of the contracts over £100,000 had contract specific risk registers, which is a measure stipulated in the Contract Management Framework
- The process of designating contracts ‘gold’ ‘platinum’ ‘silver’ or ‘bronze’ per the Contract Management Framework does not appear to be used and there is no central register to identify the designation of the contracts and the responsibility of monitoring this. As a result the relevant monthly due diligence (credit risk) checks were not routinely carried out
- Evidence of timely credit risk checks prior to the contract starting was not available in all cases. Contract managers rely on the Procurement Team to carry out all due diligence checks (for example, asking for proof of updated insurance), however, it is regarded as the contract manager’s responsibility rather than the Procurement teams
- The level to which contract managers monitor overall spend on the contract across cost centres is unclear.

CONCLUSION:

There is a good framework in place for contract management at the Council, however, there is also some inadequate contract management practice and key elements of the Contract Management Framework have not been upheld, for example, the maintenance of a risk register for contracts over £100,000. Based on this we have provided moderate assurance for design of controls and their effectiveness. Many of the administrative exceptions (easy access to copies of fully signed contracts) relate to older contracts where the current contract manager may not have been responsible for the set-up of the contract. It is clear that over the past two years the Contracts & Procurement Team has begun to implement controls that should improve the audit opinion in future years.

APPENDIX I

OPINION AND RECOMMENDATION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
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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