



Oxford City Council

# INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

July 2019

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# SUMMARY OF 2018/19 WORK

## Internal Audit 2018/19

This report details the work undertaken by internal audit for Oxford City Council and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been or will be issued for this financial year:

- Audit 1. Car Parking
- Audit 2. Data Analytics
- Audit 3. ICT Service Desk
- Audit 4. Risk Management
- Audit 5. General Ledger
- Audit 6. Accounts Receivable
- Audit 7. Project Management (inc Capital Projects)
- Audit 8. Members Allowance and Budgets
- Audit 9. Investment Property
- Audit 10. Retention
- Audit 11. Customer Services
- Audit 12: Fusion Partnership Arrangements
- Audit 13: Companies Review Oversight
- Audit 14: PCI - DSS - Compliance stage 1
- Audit 15: Disabled Facilities Grant

We have detailed the opinions of each report and key findings on pages five to 16. Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

## Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Full Council, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

Overall, we are able to provide Moderate assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- We issued two part limited opinions out of 15 audits conducted however it should be noted that five audits were advisory audits and did not lead to an audit opinion. Key financial systems audits were given moderate assurance or better. The part limited opinions were on Fusion partnerships arrangements and Retention. The number of high and medium findings have decreased in 2018-19 compared to previous years (2016 -17 and 2017 -18) in addition to the overall number of findings. This is in part due to the Council's approach in implementing our recommended controls strengthening their control environment.

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- We are not aware of any material concerns with the financial accounts for the Council or other material issues which may impact our opinion
  - We conducted a follow-up of recommendations process for actions due June 2019 or earlier. This found that out of 28 recommendations due, 50% were deemed incomplete including three high recommendations due. This is lower than expected however, mainly due to system upgrade issues rather than resistance to implementation. The Council are keen to ensure recommendations are implemented when due and as a result, BDO report the follow up tracker quarterly to the Operations Delivery Group, a new process introduced as part of the June 2019 follow up process.

# REVIEW OF 2018/19 WORK

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Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Audit 1. Car Parking	0	0	3	Substantial	Substantial	<p>Throughout the review, a number of good practice points were identified. Specifically:</p> <ul style="list-style-type: none"> <li>• Documented procedure notes are in place for the overview of the car parking team's roles and responsibilities.</li> <li>• 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.</li> <li>• 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.</li> <li>• 98% of total machine faults reported during the months of April, May, June and July 2018 were responded to/repaired within two hours.</li> <li>• 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.</li> <li>• Monthly meetings are held between the car parking manager and the Council's finance officers to discuss financial performance.</li> </ul> <p>However, we identified that:</p> <ul style="list-style-type: none"> <li>• Parking debts are not always submitted for debt recovery in a timely manner (Low Finding)</li> <li>• Reconciliations of audit tickets to information produced by Jade Security Services are not always signed as approved by management (Low Finding)</li> <li>• Faults with ticket machines are not always addressed within two hours (Low Finding).</li> </ul>
Audit 2. Data Analytics	0	1	2	Advisory - no opinion given		<p>We identified good practice in the following areas:</p> <p>Payroll</p> <ul style="list-style-type: none"> <li>• Unusual activity in expense claims</li> <li>• Duplicate payments to employees</li> <li>• Removal of leavers</li> <li>• Employee transactions with no record in the standing data</li> <li>• Excessive overtime payment</li> </ul>

					<ul style="list-style-type: none"> <li>• Completeness and accuracy of payroll data: employee reference, name, address, bank detail, date of birth and income tax code.</li> </ul> <p>Accounts Receivable</p> <ul style="list-style-type: none"> <li>• Customer payment time</li> <li>• Council reporting capability on bad debt.</li> </ul> <p>Accounts Payable</p> <ul style="list-style-type: none"> <li>• Round sum payments</li> <li>• Duplicated payments</li> <li>• Transactions with no supplier code in the standing data</li> <li>• Weekend transactions</li> <li>• Duplication/Fictitious supplier, focusing on the name, bank detail and address.</li> </ul> <p>The data analytics undertaken only identified a small number of issues. There is one instance of an invalid national insurance number and potential duplicates of customer accounts. There were four tests, which we were not able to carry out due to systems the Council hold not being able to extract reports in the detail required. The Council should review these areas and consider whether new reporting facilities could be implemented.</p>
Audit 3. ICT Service Desk	-	7	-	Advisory - no opinion given.	<p>From our assessment we identified the following areas of good practice:</p> <ul style="list-style-type: none"> <li>• The Council has mapped its services to the IT applications and infrastructure that is required to support their delivery</li> <li>• The Council has deployed and configured appropriate IT service management tools to support the ICT Service Desk.</li> </ul> <p>However, we noted the following areas for improvement:</p> <ul style="list-style-type: none"> <li>• The purpose, objectives and scope of the ICT Service Desk have not been defined</li> <li>• The ICT Service Desk processes and their relationships with the wider ICT</li> </ul>
Audit 4. Risk Management	-	-	-	Advisory - no opinion given.	<p>The review found some excellent areas of practice with regard to risk management:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Clear processes and mechanisms are in place for the management of risk across the Council</li> <li>• All staff interviewed were confident in discussing risk and felt that generally there was a good tone from the top with regard to risk</li> <li>• Risks and mitigating controls are assigned to owners</li> </ul>

Audit 4. Risk Management					<p>However, some areas for improvement were identified some areas for improvement were also identified:</p> <ul style="list-style-type: none"> <li>• The risk rating method used does not follow best practice and there is some inconsistency between staff in their approach to risk ratings and understanding of the Council's risk appetite (Observation 1)</li> <li>• The wording of risks and controls within both the CRR and SRRs could be refined. SRR risk owners are not prompt in updating the risk register and the Insurance Officer frequently has to chase up, indicating engagement is sometimes lacking (Observations 2 &amp; 3)</li> <li>• There is a potential gap where key project or partnership risks are not included in the CRR (Observation 4)</li> <li>• The minutes of meetings reviewed did not contain in depth discussions on the risk register and updates on the mitigating controls (Observation 5)</li> <li>• There has not been any mandatory and specific risk management training over the past two years (Observation 6)</li> <li>• There is room for extra detail in the Strategy and Operating Framework (Observation 7)</li> <li>• The Council does not have a process in place to assess its risk management effectiveness (Observation 8)</li> </ul>
Audit 5. General Ledger	0	0	4	<p>Substantial</p> <p>Moderate</p>	<p>We noted the following areas of good practice:</p> <ul style="list-style-type: none"> <li>• The Council was making sound preparations to incorporate the latest upgrade of Agresso software ('milestone 7') into their live systems. This was subject to discussions between appropriate officers from Finance and IT on the best method of implementing the upgrade but strong provisions (including up to six months to test it) are in place for the Council to ensure it maximises their software capabilities</li> <li>• Procedure notes for adding/amending the chart of accounts were robust. The inclusion of written and visual guidance allows officers to carry out the functions accurately</li> <li>• Monthly reconciliation procedures are completed accurately and on a timely basis, with reviews undertaken by an appropriate officer. Each procedure had supporting documentation/ worked calculations included</li> <li>• Automatic interfaces to/from Agresso are completed successfully but in cases where there is a failure, the appropriate team are notified as such so that transactions can be added manually</li> <li>• The SLA between the Council, ODSL and ODSTL clearly outlines the key services and responsibilities of each party, forming the foundation of an effective relationship.</li> </ul> <p>During our review, the following areas of improvement were identified:</p> <ul style="list-style-type: none"> <li>• Of the 20 journals tested, four had differing dates between the master list of journals processed from April 2018 to October 2018 and the original journal form raised</li> </ul>

						(Finding 1 - Medium)
Audit 6. Accounts Receivable	0	3	4	Moderate	Moderate	<p>The following areas of good practice were identified:</p> <ul style="list-style-type: none"> <li>The Council has a robust set of financial rules within their Constitution, highlighting objectives for collecting debt, preferred methods of payment, and was published recently in April 2018</li> <li>In accordance with the aforementioned Constitution, every Council debt write-off since April 2018 was authorised by the Head of Financial Services</li> <li>The Council and Company's Service Level Agreement (SLA) on Income Collection was clear about the liabilities of both parties. Agreements on who has liabilities of debt write-off and length of the agreement was sufficiently presented</li> <li>As articulated in the SLA on Income Collection, officers from both the Council and ODS have met regularly. Furthermore, minutes and agendas of meetings between the Council's Section 151 Officer and the ODS's Managing Director show that issues surrounding debt recovery are being discussed.</li> </ul> <p>During our review the following areas of improvement were identified:</p> <ul style="list-style-type: none"> <li>Exceptions were found in all cases sampled across the Council, ODSL and ODSTL in relation to debt recovery 14 day and 45 day letter reminders being sent in time. Furthermore, there was one exception of the L7 letter being sent on time (Finding 1 - Medium)</li> <li>Due diligence of new customers was insufficient due to the tick box being ignored by departments. Furthermore, greater clarification over the levels of due diligence is required for different customers (Finding 2 - Medium)</li> <li>High levels (992 cases at time of testing) of overdue debt exceeding 270 days were not written off as the Council's policy states it should be (Finding 3 - Medium)</li> </ul>
Audit 7. Project Management (inc Capital Projects)	0	4	0	Moderate	Moderate	<p>We noted good practice in the following areas:</p> <ul style="list-style-type: none"> <li>A PMO has been set up to co-ordinate project management across the Council, to ensure there is a consistent approach and to ensure there is a central resource for each project manager to access</li> <li>Areas for improvement have been captured within the staff workshops held over the Summer and there is evidence that work has commenced to address these issues</li> <li>There has been an introduction of an online tool for reporting progress on all major projects in the pipeline, at feasibility stage, design and technical specification and delivery. This gives appropriate staff and stakeholders access to the ongoing projects and associated budget and actual spend, and is easier to navigate than the previous excel spreadsheet with the same information</li> </ul>

Audit 7. Project Management (inc Capital Projects)						<ul style="list-style-type: none"> <li>The PMO Manager has started to attend team meetings to discuss the new project management approach, tailoring each meeting to the specific team. It is expected this will be rolled out further in 2019</li> <li>The Council is aiming to roll out a Review Group that would review ideas and proposals and business cases before presentation to the Development Board</li> <li>A Development Board has been established</li> </ul> <p>The following key findings have been identified:</p> <ul style="list-style-type: none"> <li>Lessons learnt and closure reports are not consistently completed across each of the teams nor presented to the PMO for quality review or the Development Board for final sign off (medium - finding 1)</li> <li>The project management approach is not consistent across the Council with the workshops highlighting a lack of clarity of approach, quality of documentation not adequate and gateways not consistently used (medium finding 2)</li> <li>Training and skill gaps for those undertaking project management was raised as an issue within the workshops. Staff also felt that they did not always have the appropriate capacity to adequately complete a project on top of their substantive post commitments (medium - finding 3)</li> <li>Consistent underspend against budget of an average 74% over the last 6 years (medium - finding 4).</li> </ul>
Audit 8. Members Allowance and Budgets	0	3	0	Moderate	Moderate	<p>The following areas of good practice were identified:</p> <ul style="list-style-type: none"> <li>The Council has up-to-date policy information regarding Members' allowances and expenses within its Constitution</li> <li>The Council has a Ward Member Budget and CIL guidance note which outlines the process and approvals process for application of these funds</li> <li>The rates used for Members' allowances is in line with the 2014 and updated 2017 Independent Remuneration Panel reports</li> <li>All expenses tested were supported by sufficient evidence and were reasonable and appropriate</li> <li>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</li> </ul> <p>During our review the following areas of improvement were identified:</p> <ul style="list-style-type: none"> <li>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)</li> <li>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)</li> </ul>

						<ul style="list-style-type: none"> <li>The application forms for CIL and WMB are completed to varying standards of quality (Finding 2- Medium)</li> <li>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)</li> </ul>
Audit 9. Investment Property	0	1	1	Substantial	Moderate	<p>Please note: This is a provisional opinion and is subject to client approval</p> <p>The following areas of good practice were identified:</p> <ul style="list-style-type: none"> <li>Extensive consultation is made during the development and delivering of the objectives in the Asset Management Plan including Senior Council Members, Heads of Services and executives. Such consultation has been documented through meeting minutes and email correspondence and retained for easy access. The discussions across teams also cover a review of market, economic and budgetary impacts to ensure the Asset Management Plan gives a comprehensive understanding of circumstances faced by the council</li> <li>Rent charged to commercial properties are subject to appropriate valuation. Valuation is done either internally by the team or externally by professional agents. The valuation is subsequently approved appropriately to keep the rent under control</li> <li>The RMP team meet regularly on a monthly basis to discuss potential new opportunities within council's existing portfolio of investment properties. Although the council is not currently looking for external opportunities due to limitations on funding and etc., the RMP is striving to make the best values out of the existing portfolio by pro-actively consider new development</li> <li>The team have a well-established procedure for the procurement of external rent valuation agents. The agents are required to submit tenders and the decision is made based on their expertise while also taking into account prices in order to secure the best service with the best price</li> <li>The council take on prospective tenants provided that the financial and covenant stability checks return reasonable results. This is especially critical to mitigate the risk of bad debt damaging the council's benefit. A deposit is also payable at discretion to help mitigate the risks</li> <li>A property voids listing is kept by the RMP team and is closely monitored by team members. This helps ensure that the council is fully aware of foreseeable lease voids so that the loss due to voids can be minimised. However we identified that reconciliations of cash collected through car parking were reviewed against a spreadsheet populated by Jade Security Services Ltd. Cash Box Report is not reviewed to compare the cash collected generated by the cash machine against the cash that was banked. We reconciled the bank statements against the Cash Box report which showed a £32,933.50 deficit (Finding 1 - High).</li> </ul> <p>We also identified that:</p>

						<ul style="list-style-type: none"> <li>Overdue debtor is not escalated to the properties team in a timely fashion due to the staffing issue faced by the debtor team recently. Following the change in team members in the debtor team, the post responsible for debtor collection was vacant for a significant period of time leading to inefficient escalation of overdue debtor. The properties team were therefore not made aware of the arrears outstanding and could not take prompt actions in reaction</li> <li>While the voids listing is closely monitored by the team and the results of the review of the voids listing is also discussed during the RMP team meetings, the review itself is not documented.</li> <li>There was a lack of compliance by credit card holders with regards to the Card Acceptance Agreement signed upon receipt of the credit card (Finding 3 - Medium).</li> </ul>
Audit 10. Retention	1	3	0	Moderate	Limited	<p>We have identified the following areas of good practice from the review:</p> <ul style="list-style-type: none"> <li>The Council has had a fairly consistent level of turnover over the past 3 years, averaging between 10-12% each year. This level is usually considered 'healthy' for an organisation, providing a balance between retaining knowledge and bringing in fresh talent and new ideas</li> <li>In April 2018, the HR Team produced a 'Recruitment and Retention Strategy' based on data collected in 2017/18. This Strategy provided information on current Council practice and a detailed analysis of key aspects of staff recruitment, retention and development, together with proposed recommendations for improvement in key areas with the aim of enhancing the Council's 'employee offer' and its position in the local, regional and national labour market. This document is dynamic and continues to be developed</li> <li>Issues and weaknesses were identified by the Council in relation to staff development and retention. Currently the Council does not have a robust talent management framework, although a new Talent Management Framework is in the final stages of agreement as part of the OD Strategy delivery. The Council needs to encourage and support succession planning for staff and the work is already underway as part of the Recruitment and Retention strategy</li> <li>The HR Team produces a monthly Portfolio Report to monitor the staff turnover rate, sickness absence rate and on-going disciplinary/grievance actions in each service area. The result and key issues from the Portfolio Report form part of the Corporate Dashboard Report which is presented to the Executive Board</li> <li>A Mental Health Programme has been presented and agreed at the People Health and Safety Committee on 24 July 2018, and subsequently at CMT. This programme will enable the Council to produce, implement and communicate a 'mental health at work' plan; develop mental health awareness among employees; and promote effective people management through line managers and team leads</li> <li>All staff interviewed were happy with the culture of openness in the team, flexible working arrangements, benefit packages and pension scheme in the Council. Most</li> </ul>

						<p>staff interviewed welcomed the training and development opportunities offered by the Council, which play a key role in retaining staff</p> <ul style="list-style-type: none"> <li>The Council has a successful apprenticeship scheme, which has been running for a number of years, which has allowed the Council to 'grow our own' and retain some good talent.</li> </ul> <p>However we also identified the following areas where controls could be strengthened:</p> <ul style="list-style-type: none"> <li>There is a communication gap between the Corporate Management Team (CMT) and the staff. Staff feel disconnected with the Council's future financial and non-financial strategies. The Council's values need to be reviewed and possibly refreshed in line with new challenges and structures. We noted that the Communication Team is in the process of building an Internal Communications &amp; Engagement Strategic Framework to bridge the gap (finding 01 - High)</li> <li>The exit survey completion rate remains low at the Council - 37% in the past 12 months (Oct 18 - Sep 19). The HR team has started a new exit interview process including face to face discussions with leavers and is now in the process of analysing the survey results and will continue to gather further intelligence about reasons for leaving. The exit interviews between employees and line managers will be made compulsory from December 2018. (Finding 02 - Medium)</li> <li>Regular appraisals held between line managers and staff are helpful with identifying potential issues and concerns and initiating actions for staff retention. However, the bi-monthly on-line appraisals completion rate was only 60% from April to October 2018 and the two most senior staff had not been appraised. This was partly attributed to staff being unfamiliar with the new appraisal system Actus (Finding 03 - Medium)</li> <li>We interviewed a sample of 15 employees across different services to understand their perception in respect of the Council's retention plans and the communication routes with their managers. The themes of the interview results include that staff feel that training opportunities are not provided to all staff, and regular appraisal meetings were not utilised to review personal development appropriately (finding 04 - Medium).</li> </ul>
Audit 11. Customer Services	0	2	1	Substantial	Moderate	<p>We have identified the following areas of good practice:</p> <ul style="list-style-type: none"> <li>A clear vision '<b>Making every customer contact count</b>' has been established in the Council's Customer Service (CS) Centre. The CS staff are endeavouring to contribute to the joint customer experience statement combining 'Trust', 'Care' and 'Please'.</li> <li>The CS Training Team spent time at each service of the Council and developed service specific training materials. Services continue to communicate updates and changes to the CSOs to ensure accurate information is provided to customers. Most scripts and guidance are built into the relevant system for CSOs to follow during the phone call/appointment. A SharePoint webpage is also available to seek new</li> </ul>

Audit 11. Customer Services						<p>updates and relevant information. Refresher training is provided to all CSOs on an annual basis - 4 weeks in November 2018.</p> <ul style="list-style-type: none"> <li>• A Skills Matrix is maintained by the Training Team to record the training completion status for each CSO under each individual service. The skills of each CSO are entered onto the telephony system, where each phone call is routed directly to the trained CSO based on the enquiry option made by the customer.</li> <li>• The CS Centre receives over 17,000 phone calls and over 2,000 face to face appointments per month, and only 19 valid/justified complaints have been raised against the CSOs from April to November 2018. All complaints are investigated by the team managers as well as the Quality Team and resolved normally within a week. Feedback is given to the CSO involved directly for future improvement.</li> <li>• A comprehensive performance framework has been defined at the CS Centre, by the team and by individuals. It is monitored on a weekly basis and non-compliance is discussed at each individual's monthly 1-2-1 meetings and the bi-monthly appraisal meetings. We noted that there are a number of CSOs who continued to under achieve the minimum requirement on adherence to shift (&lt;90%) and wrap up time limit (&gt;4.21 minutes) from April to September 2018. They have all been put on Performance Improvement Programmes and improvement has been evidenced from the October - December 2018 results.</li> <li>• The Quality Team have presented the quality control results to the management team meeting on a monthly basis since September 2018. Development areas are identified against each quality control criteria including Data Protection, Building Rapport, Showing Professionalism, etc. The results are broken down to each CSO so under performance can be identified clearly.</li> </ul> <p>We identified the following areas for improvement:</p> <ul style="list-style-type: none"> <li>• CS Team Managers are not meeting the target of listening to three phone calls answered by the CSOs on a monthly basis, which is a key part of the quality monitoring process (medium - finding 1)</li> </ul>
Audit 12: Fusion Partnership Arrangements	0	4	4	Moderate	Limited	<p>We have identified the following areas of good practice from the review:</p> <ul style="list-style-type: none"> <li>• Reporting from Fusion to the Council is sound in that it happens regularly and in agreed formats in a timely manner. This includes information on customer complaints and compliments and the outcomes of surveys with high level actions on how further improvement can be made</li> <li>• Customer representatives are invited and some do attend the Partnership Board meetings</li> <li>• The central customer complaint process via Market Force operates well with responses identified and acted upon largely in a timely and sympathetic manner.</li> </ul> <p>However we also identified the following areas where controls could be strengthened:</p>

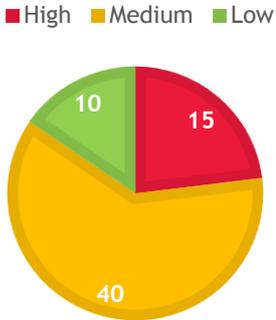
						<ul style="list-style-type: none"> <li>• Customer forums at sites do not operate as effectively as they should. This has been caused in-part by changes in Fusion staff resulting in meetings being cancelled, low attendance and minutes/agendas not being issued on a timely basis (Medium)</li> <li>• Not all channels for where complaints can be made - i.e. on social media, via telephone or face-to-face - are recorded on Market Force and are not formally reported to the Council (Medium)</li> <li>• Text message alert services and commitments to call back customers within 24 hours who have signed up to find out more about a service were demonstrated not to be working effectively as contact was not made following requests made (Medium)</li> <li>• When reviewing each social media page and website for each location we found inconsistencies in customer information which were displayed on some sites and not others eg signposting to the App (Medium)</li> </ul>
Audit 13: Companies Review Oversight	1	3	1	Moderate	Moderate	<ul style="list-style-type: none"> <li>• 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 currently forecasting more than the budgeted amount. 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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</li> </ul> <p>However, we found the following areas of improvement:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Whilst the Council's two joint ventures - Barton Oxford LLP and OXWED - have a range</li> </ul>

						<p>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</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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".</li> </ul>
Audit 14: PCI - DSS - Compliance stage 1	-	-	-			<p>Advisory - no opinion. The Council is in the process of identifying the payment channels that are in use so that it can determine the actions that need to be taken to comply with the PCI-DSS. Due to this being at an early stage we are unable to provide a checklist of further actions at this time. Positive steps are being taken, but they require significant and continued support from across the Council to ensure that they are delivered. We will perform stage two of our audit once this work has been done and the Council remains at risk of a fine until this has been completed.</p>
Audit 15: Disabled Facilities Grant	This is a mandatory annual return the Council complete to declare the expenditure allocated to disabled facilities grant applications. This was certified and submitted without any errors to report.					
Total	2	31	20			

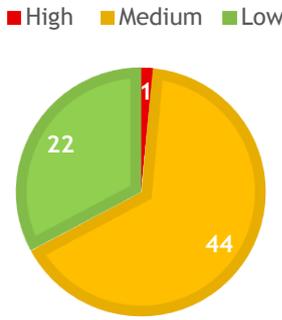
# SUMMARY OF FINDINGS

We also provide an overall opinion on both the design and operational effectiveness of the controls operating over the areas we review when we are providing assurance. The assurance levels given during 2016 - 17, 2017 -18 and 2018 -19 are set out below. It should be noted since 2016 -17 the number of high priority recommendations have decreased substantially, we gave 15 high priority recommendations in 2016 -17 in comparison to two in 2018 - 19. The number of medium level recommendations remains static however, overall we have provided fewer medium priority recommendations in 2018 -19 (31 medium recommendations) in comparison to 2017 -18 (44 medium recommendations).

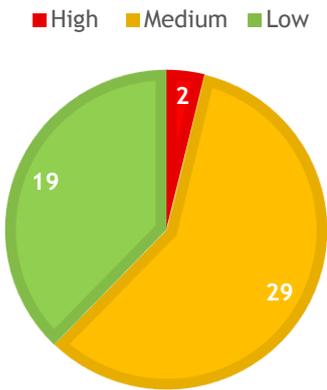
**BDO RAISED 65 HIGH, MEDIUM AND LOW RECOMMENDATIONS IN 2016 -17**



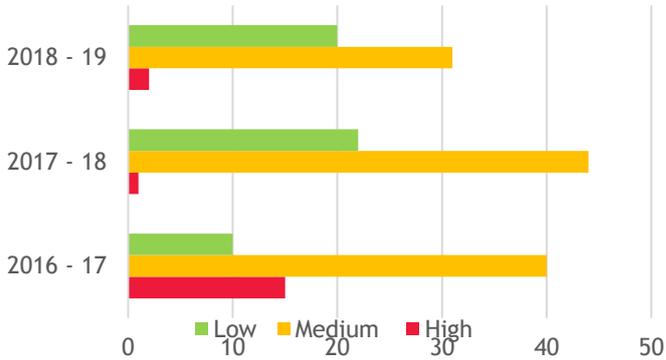
**BDO RAISED 67 HIGH, MEDIUM AND LOW RECOMMENDATIONS IN 2017 -18**



**BDO RAISED 53 HIGH, MEDIUM AND LOW RECOMMENDATIONS IN 2018 - 19**



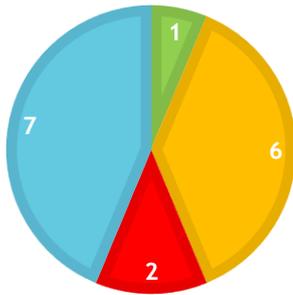
**A comparison of recommendations High, Medium and Low raised since 2016 -17, 2017 -18 and 2018 - 19**



Below we have outlined the number of control design and control effectiveness opinions provided in 2016-17, 2017 -18 and 2018-19 respectively.

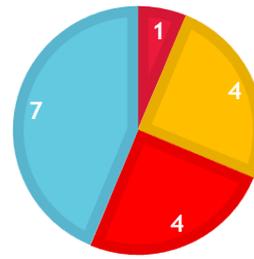
### 2016 - 17 CONTROL DESIGN

■ Substantial ■ Moderate ■ Limited ■ N/A



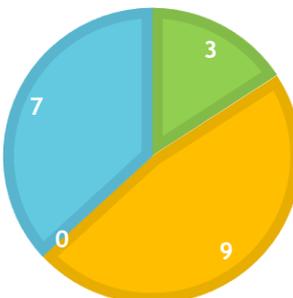
### 2016 - 17 CONTROL EFFECTIVENESS

■ Substantial ■ Moderate ■ Limited ■ N/A



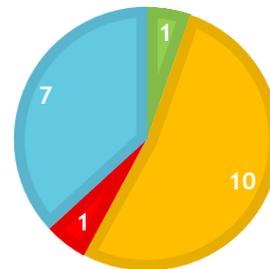
### 2017 - 18 CONTROL DESIGN

■ Substantial ■ Moderate ■ Limited ■ N/A



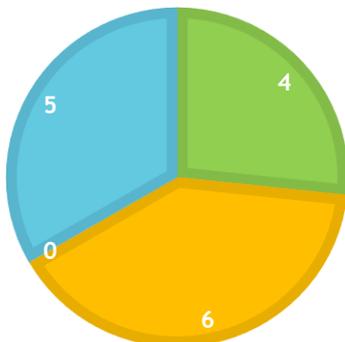
### 2017 - 18 CONTROL EFFECTIVENESS

■ Substantial ■ Moderate ■ Limited ■ N/A



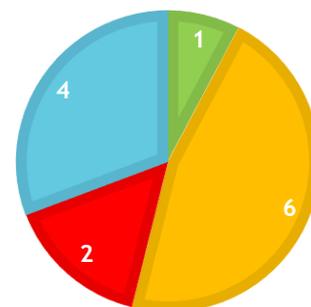
### 2018 - 19 CONTROL DESIGN

■ Substantial ■ Moderate ■ Limited ■ N/A



### 2018 - 19 CONTROL EFFECTIVENESS

■ Substantial ■ Moderate ■ Limited ■ N/A



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## ADDED VALUE



### USE OF SPECIALISTS

Utilised specialists in our advisory team to conduct a companies oversight review the review followed-up, where appropriate, on the recommendations made in BDO's previous report, and identified any other emerging issues which present an opportunity for the Council to improve its governance of both ventures.



### ON-SITE PRESENCE

We have ensured there is a strong on-site presence with terms of reference and closing meetings normally being held face-to-face. The Internal Audit Manager has attended all Audit Committees.



### BENCHMARKING AND BEST PRACTICE

We have provided benchmarking in reports where applicable. As part of the retention audit we provided statistics from other Councils on the top reasons for why people leave employment and a retention best practice checklist for the council to utilise.

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# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Oxford City Council is to provide an opinion to the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

## Scope and Approach

### Audit Approach

We have reviewed the control policies and procedures employed by Oxford City Council to manage risks in business areas identified by management set out in the 2018-19 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Oxford City Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

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The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

### **Reporting Mechanisms and Practices**

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

### **Management actions on our recommendations**

Management were responsive to Internal Audit during fieldwork and were largely responsive in the closing meetings of reviews where agreements were reached on findings and recommendations. Corresponding management were engaged and provided management responses in a timely manner enabling BDO to finalise reports in a timely manner. Overall, management are engaged and with internal audit

### **Recommendations follow-up**

We conducted a follow-up of recommendations process for actions due June 2019 or earlier. This found that out of 28 recommendations due, 50% were deemed incomplete including all high recommendations due. This is lower than expected however, mainly due to system upgrade issues rather than resistance to implementation. The Council are keen to ensure recommendations are implemented when due, as a result, BDO report the follow up tracker quarterly to the ODG a new process introduced as part of the June 2019 follow up process. This requires BDO to update all management on recommendations due with no response and or continuous revision of due dates.

### **Relationship with external audit**

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

However it should be noted the Council's external audit team for 2018-19 have completed the external audit work due to resourcing difficulties the external audit team have not yet engaged with the Council in terms of fieldwork and therefore we have not communicated with them thus far.

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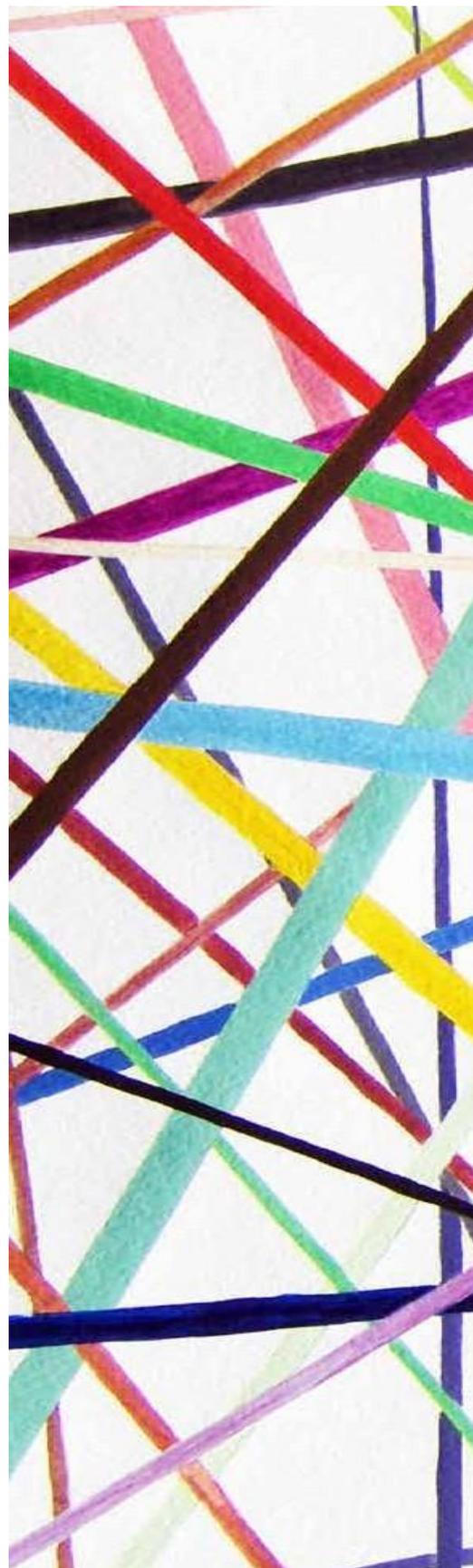
## Report by BDO LLP to Oxford City Council [the Council]

As the internal auditors of the Council we are required to provide the Audit Committee, and the Section 151 Officer with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides the Council with Moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2018-19. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the Council
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work



# KEY PERFORMANCE INDICATORS

Quality Assurance	Detail on KPI	RAG Rating 2018 - 19
Draft report to be produced 3 weeks after the end of the fieldwork	Based on one report issued to management to date, this was issued in less than three weeks after the end of the fieldwork. This was the case with exception to 1 review	
Management to respond to internal audit reports within 3 weeks	Management responses have been received within the agreed timescales with exception to 1 review	
Final report to be produced 1 week after management responses	Due to short term challenges we encountered difficulties to ensure final reports are issued to the Council within 1 week from management responses. This issue has now been resolved for 2019-20 and we have already finalised two reports and are in the process of undertaking further audit work in July 2019 to report to the October 2019 committee.	
90 % recommendations to be accepted by management	Management has accepted all recommendations raised in 2018 - 19	
Positive result from any external review	Following an External Quality Assessment by the Institute of Internal Auditors in April 2015, BDO were found to 'generally conform' (the highest rating) to the International Professional Practice Framework and Public Sector Internal Audit Standards.	
Follow-up of recommendations	We completed the follow-up of recommendations commencing in June 2019 and reported this to the ODG. The follow up was completed in a timely manner	



# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

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



FOR MORE INFORMATION:

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