

INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Oxford City Council

2019/20

IDEAS | PEOPLE | TRUST



CONTENTS

	Page
Executive Summary	3
Review of 2019/20 Work	5
Summary of Findings	11
Added value	12
Background to annual opinion	14
Key Performance Indicators	17
Appendix 1: Opinion and recommendation significance	18

SUMMARY OF 2019/20 WORK

Internal Audit 2019/20

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

- Accounts Payable and Procurement
- Collection Fund
- Contract Management
- Corporate Performance and Service Area Performance (High Level)
- Election Accounts
- Events Management
- Graffiti and Street Appearance
- Health and Safety and Fire Safety
- High Level Business Continuity, Disaster Recovery and Emergency Planning
- ICT General Controls
- Treasury Management (High Level)
- Fusion Follow - up

We have detailed the opinions of each report and key findings on pages five to 10. Our internal audit work for the 12 month period from 1 April 2019 to 31 March 2020 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. Our plan included reviews on Housing Rents, Enforcement Re-structure and Environment for 2019/20. However, it has been agreed with the Council that these will be moved to the 2020/21 plan. 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 Council's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the Council'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 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:

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- The Council increased its' earmarked reserves by nearly £5m during 2019/20 to ensure that it is financially robust going forward to mitigate the estimated financial maximum arising from COVID. The outlook for 2020/21 is currently very challenging, mainly due to Covid- 19, with forecast net increased costs estimated at approximately £9.2 million IN 2020-21 with ongoing implications for the Medium Term Financial Plan (MTFP) estimated at around £14 million over the ensuing three year period. There is still significant uncertainty around these figures which are based on data from one month of lockdown with a current assumption that this will last for at least three months with a long period of recovery thereafter.
 - The Council have implemented most of our recommendations. Those that haven't been implemented is largely down to the impact of COVID in late March. In 2019-20, the escalation process for follow up was refined to improve effectiveness. All non-responses and recommendations with several revised due dates were reported to the Operation Delivery Group (ODG) meeting each quarter. This has improved the follow up process and implementation of recommendations.
 - All of our reports this year which contained an opinion, have provided substantial or moderate assurance, including two with substantial assurance on design and effectiveness (Collection Fund and Treasury Management). That is an improved position on last year, when there were two limited opinions on control effectiveness. If the Council continues this level of improvement it could achieve substantial assurance overall. However, Covid-19 presents control challenges for all Councils and that may be reflected in our audit work next year.

REVIEW OF 2019/20 WORK

153

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Accounts Payable & Procurement		4	2	Moderate	Moderate	<p><u>Conclusions</u></p> <p>There were sound processes and procedures in place which were supported by a good, clear team structure for both the accounts payable function and for managing procurements. However, controls could be strengthened in some areas, particularly for the separation of duties between amending supplier details and making payments.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> • Embed a separation of duties in the process to change supplier details by adding an approval for a change • Credit reports should be maintained for all suppliers, including the Council's existing suppliers • Publishing all contracts over the value of £25k on Contracts Finder • KPI reports were missing data in some instances and action plans should be implemented to reduce the number of non-compliant contracts • Maintain a log for changes to the Delegated Authority Listing • Develop a schedule for the review of the Corporate Procurement Strategy and benchmark it against the National Procurement Strategy.
Collection Fund			1	Substantial	Substantial	<p><u>Conclusions</u></p> <p>Processes to support NNDR and council tax billing, charging and recovery were robust and the sample we tested provided assurance that these were operated effectively. However, liaison with Law and Governance could support the Council to improve recovery in cases where the rate payer does not pay.</p>

						Findings/Recommendations: <ul style="list-style-type: none"> • Consultation and regular meetings between the Recovery team and the Legal team to identify cases where Legal can provide support to facilitate better recovery of debts.
Contract Management	1	3	1	Moderate	Moderate	<p><u>Conclusions</u></p> <p>A robust Contract Management Framework is in place but there were cases on non-compliance with the framework, i.e. maintaining a contracts register for all contracts worth over £100k. There was evidence that the Contracts & Procurements team has begun to implement controls over the past two years.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> • Retention of contracts by contract managers • Two instances where the contractor's signature had not been obtained • Ensure that KPIs are formed in each contract and monitored regularly by the contract manager • Maintaining risk registers for contracts for effective risk management • Designations of contracts should be recorded on a register and spot checks should be undertaken to ensure correct categorization • Credit checks should be completed and reports retained • Alignment between the P2P Approval Matrix and current contract managers.
Corporate Performance and Service Area Performance (High Level)		2	1	Moderate	Moderate	<p><u>Conclusions</u></p> <p>The current Corporate Performance Framework is outdated and therefore not aligned with the Corporate Plan (2016 - 2020). While the Council had a reasonably robust corporate reporting mechanism, it contained insufficient details on the progress and actions outlined against each risk.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> • Performance Management Framework (2011 - 2015) is outdated and should be reviewed/refreshed every two years

					<ul style="list-style-type: none"> Records of actions/progress to mitigate risk and mitigation due dates for each corporate risk Discussions about the roles/responsibilities and recent delays in uploaded data for corporate indicators should be held at ODG.
Election Accounts	2	1	Substantial	Moderate	<p><u>Conclusions</u></p> <p>The control design for administration of elections was strong and there was compliance guidance provided by the Electoral Commission. However, there were cases where payments made to Polling Stations did not adhere to the Finance Rules and incompleteness of training by polling staff prior to them working on elections.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> Payments to Polling Stations were not compliant with Finance Rules Recording and monitoring of training by Poll Clerks prior to them working on elections Declarations of political neutrality and appointment forms should be used for Poll Clerks with payments withheld where these are incomplete.
Events Management	5	3	Moderate	Moderate	<p><u>Conclusions</u></p> <p>Events in Oxford have grown in the last few years and the Council have maintained good practice for managing them, such as the Events App, effectiveness of SAG and event surgeries. However, controls could be strengthened by updating policies, procedures and training.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> Clarity of staffing requirements for events Standard training for all events management members and specific training for newly classified roles Development of an internal strategy for managing events with consultation with external stakeholders Document events management and emergency planning team's responsibilities and expertise, as well as more widely between the Council and Oxfordshire County Council

					<ul style="list-style-type: none"> • Train staff providing guidance for events to reduce the risk of negligent advice leading to a liability arising • Provide more guidance over the type of events that would be encouraged.
Graffiti and Street Appearance	2	1	Moderate	Substantial	<p><u>Conclusions</u></p> <p>A proactive approach is taken towards removing offensive graffiti and maintaining high standard street appearance, including filling empty storage units. However, communication with stakeholders were inadequate or incomplete on occasions regarding updated policies.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> • Communicating with residents about the Council's updated approach for the removal of graffiti • Automating communication with graffiti reporters about actions taken to remove the graffiti • Improve data for monitoring empty units.
Health & Safety and Fire Safety	2		Substantial	Moderate	<p><u>Conclusions</u></p> <p>Policies and procedures are in place to effectively manage health and safety and these have been subject to appropriate oversight from senior management and the Health & Safety Committee. Furthermore, training programmes are in place for health and safety at the corporate induction but our analysis of the data found that not all new starters had completed this.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> • Monitor completion of the corporate induction and escalate cases where training has been cancelled • Review fire risk assessments three-yearly and where the property carries a higher risk this should be completed annually.
High Level Business Continuity, Disaster Recovery &	2		Substantial	Moderate	<p><u>Conclusions</u></p> <p>The control design was adequate with particular reference to business continuity plans, allocations of responsibility and providing guidance to staff. However, detail about the frequency of business continuity plans and tracking of third party plans by Zurich.</p>

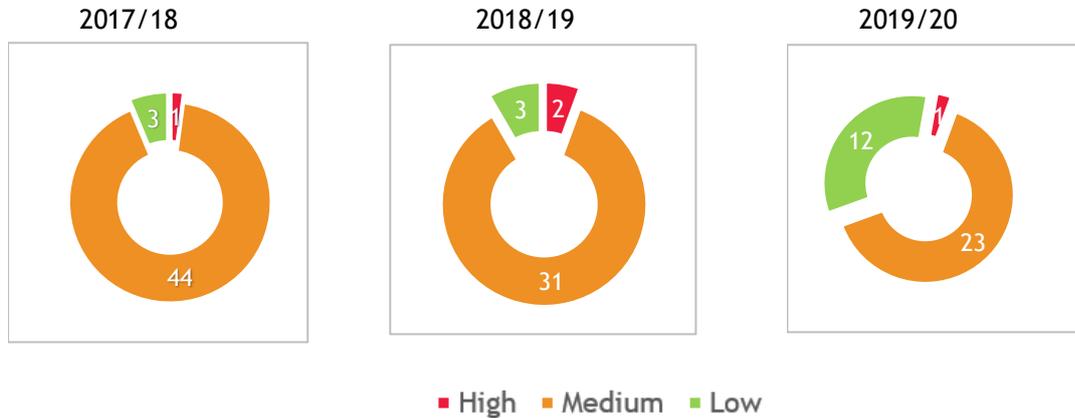
Emergency Planning					Findings/Recommendations: <ul style="list-style-type: none"> Annual testing of critical systems and servers Approval of business continuity plans prior to them being issued to the service area management to be implemented.
ICT General Controls	1	1	Substantial	Moderate	<p><u>Conclusions</u></p> <p>A range of policies and procedures are in place for guidance to staff on maintaining security and setting up users. Furthermore, there were checks that servers were running effectively. Inadequacies were identified in the maintenance of an information asset register and the review of the Access Policy.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> Monitoring uptake of mandatory training to ensure data is treated correctly, and in accordance with regulations Formalise the process for tracking, reviewing and monitoring IT policies.
Treasury Management (High Level)		1	Substantial	Substantial	<p><u>Conclusions</u></p> <p>The Treasury Management Strategy is robust and has been prepared with appropriate review and approval. Our review of investments found that satisfactory separations of duty were upheld prior to the processing of payments.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> Any verbal approval for an investment should be supported by a documented record of the approval.
Fusion Follow up			N/A	N/A	<p>The Fusion follow up report was limited on both Operational effectiveness and Design as a result we carried out a separate follow-up review on the Fusion review to ensure they were implemented.</p> <p>FUSION RECOMMENDATIONS</p>

			<ul style="list-style-type: none">• Nine recommendations are due for follow-up with recommendations due prior to the end of December 2019 Of the Nine recommendations:• Eight Medium recommendations are fully implemented As at March 2020, One Medium recommendation was incomplete and has been revised for the second time.
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SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

Recommendations



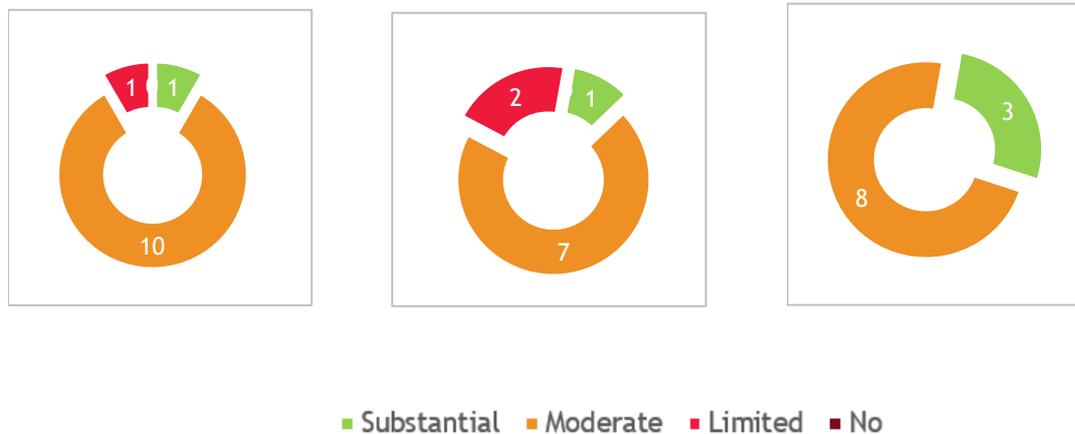
In 2019 - 20, there were a total of 36 recommendations issued; 1 high, 23 Medium and 12 Low recommendations. In comparison, in 2018 -19 there were 36 recommendations made of which two were high recommendations. In 2017 -18 there were a total of 48 recommendations made of which one was high and 44 were medium. The Council is moving towards a state of better systems and control environment therefore, fewer recommendations have been made and at lower priority levels.

Control Design



In 2019 - 20 there were six substantial and five moderate control design opinions issued. In comparison, in 2018 -19 there were four substantial and six moderate and 2017 -18 there were nine moderate control design opinions. The Council have shown more awareness of the design of their control environment and therefore have a 33% increase in substantial control design which is significantly better than 2017 -18 and 2018 -19

Operational Effectiveness



In 2019 - 20 there were three Substantial and eight Moderate opinions issued. There was no limited effectiveness opinions issued, whereas there were two limited opinions on effectiveness in 2018 - 19. The Council has gradually become better at applying policies consistently and operating in a better control environment than 2017 -18 and 2018 -19.

ADDED VALUE



IT SPECIALISTS

We undertook two IT reviews (ICT General Controls and High Level Business Continuity, Disaster Recovery & Emergency Planning) during the year and deployed IT specialists in these reviews



SUPPORT AND NETWORKING

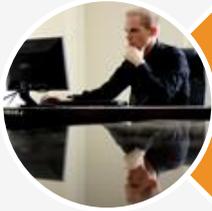
We invited the Governance team to a Midland District Group which we hosted to share ideas on governance and internal audit for local authorities. We also held a finance and audit update meeting which the Council were invited to attend



BENCHMARKING AND BEST PRACTICE

We benchmarked the Council's Performance Improvement Framework against other local authorities. We identified areas where authorities approaches differed to the Council to identify areas where the Council could improve their Framework

KEY THEMES



PEOPLE

The Council welcomed the internal audit and provided us with strong levels of time and support during our reviews. We found in some audits that training compliance was low or not being monitored



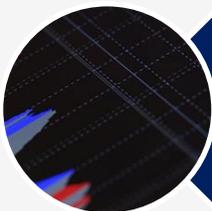
GOVERNANCE & STRUCTURES

Monitoring and governance processes were robust and strong team structures were identified within several of our reviews, including Corporate Performance, Contract Management and Health & Safety reviews



POLICES & PROCEDURES

Policies and procedures were in place and were subject to approval throughout service areas within the Council. There were some policies that were outdated, however these were the exceptions. We found issues with compliance with controls, eg contract management



FOLLOW UP

We followed up on all recommendations due in the year and reported these to the Audit Committee. We worked with ODG to arrange a process of senior management inclusion in the follow up process to improve the engagement from managers. The implementation of recommendations has significantly improved since 2017 -18 as recommendations are now presented to ODG regularly.

BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to Oxford City Council (the Council) is to provide an opinion to the Full Council, through the Audit Committee, 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 2019 to 31 March 2020 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 the Council to manage risks in business areas identified by management set out in the 2019/20 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 the Council's 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.

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 engaged with the internal audit process and provided considerable time to us during the fieldwork phases of our reviews, providing audit evidence promptly and allowing the reviews to proceed in a timely manner, including opportunities to discuss findings and recommendations prior to the issue of draft internal audit reports. Management responses to draft reports were mostly within our requested time frame, however, there were some instances where the turnaround of draft reports was slow.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

We have noted that there has been an improvement in the implementation of recommendations issued during 2019/20 in comparison to the prior year with 61% of all recommendations followed up in the year complete. However, whilst there has been an improvement, due dates for some recommendations had to be revised up to five times during the year which is inadequate and could cause risks to materialise.

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.

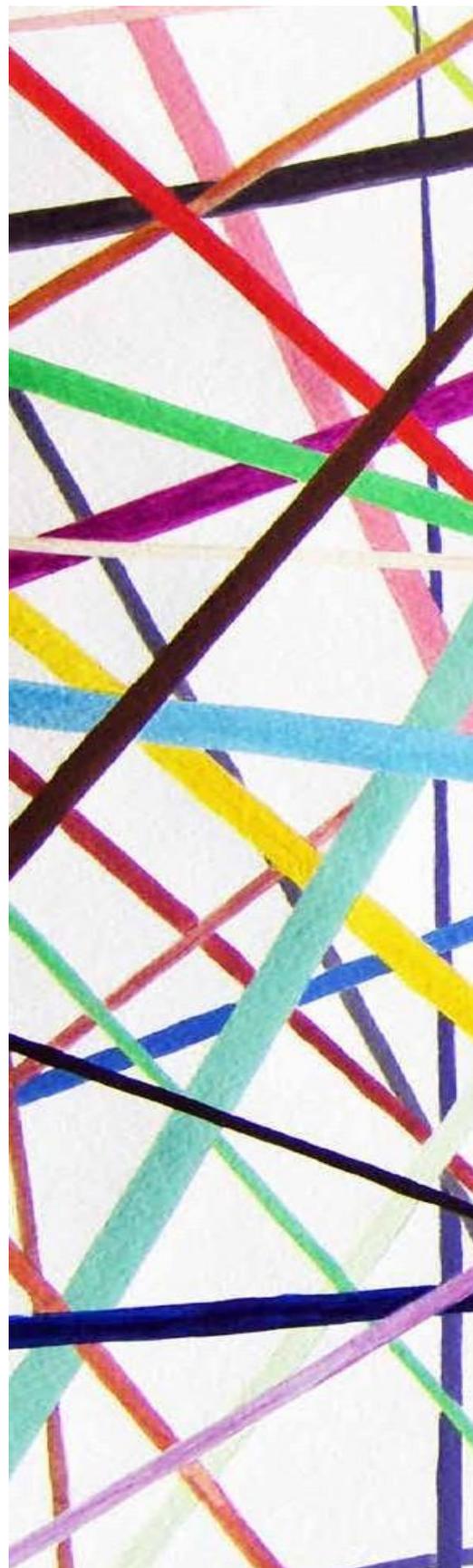
Report by BDO LLP to Oxford City Council

As the internal auditors of Oxford City Council we are required to provide the Audit and Governance Committee, and the Council's 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 2019/20. 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 2019/20
- 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	KPI	RAG Rating
Quality of work	Feedback from our work was positive and recommendations were agreed with management prior to finalisation of reports. We issue a survey after each audit which we were rated 4.75/5 for overall audit experience.	●
Effective planning	We completed many of our reviews in the first three quarters of the year and were therefore not disrupted too significantly by COVID-19. This allowed us to spread fieldwork out over the year to support the Council's workload.	●
Completion of the audit plan	We have finalised reports for all reviews for 2019/20 and agreed to delay reviews into 2020/21 where we were unable to undertake the work due to COVID-19. We have given this a green status as all delays were at the discretion of the Council.	●
Follow-up of recommendations	We followed up all recommendations issued during the year and all outstanding recommendations from 2018/19. There has been improvement in the completion of recommendations and we worked with ODG to engage senior management in the follow up process.	●

We will obtain feedback during the year upon finalisation of each report and feed the results back to the Audit Committee.



APPENDIX 1

OPINION 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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