

INTERNAL AUDIT PROGRESS REPORT

Oxford City Council

November 2020

IDEAS | PEOPLE | TRUST



CONTENTS

Progress against internal audit plan	3
Executive Summary - Payroll and Overtime	5
Local Government Sector Update	9
Appendices:	
Definitions of assurance	13

SUMMARY OF 2020/21 WORK

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2020/21 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 Internal Audit 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 Appendix 1 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.

2020/21 Internal Audit Plan

We are pleased to present the following reports to this Audit Committee meeting:

- Payroll and Overtime Report
- Follow up Report

In May 2020 it was agreed with the S151 officer that all Quarter 1 reviews will be delayed until Quarter 2. We have made good progress in Quarter 2 and Quarter 3 where a majority of Terms of References have been finalised and reviews will/have commenced from September onwards. The following reviews have/will commence from October and November and we anticipate to present these at the next audit committee:

- Accounts Receivable
- Data Analytics
- Planning Services
- Treasury Management
- Channel Shift.

REVIEW OF 2020/21 WORK

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion Design	Opinion Effectiveness
Audit 1: Car Parking	10	Nigel Kennedy	✓	22 Feb 21			
Audit 2: Channel Shift	15	Helen Bishop and Nadeem Murtuja	✓	9 Nov 20			
Audit 3: Companies Oversight	15	Nigel Kennedy	✓	4 Jan 21			
*Audit 4: Housing Rents	13	Nigel Kennedy	✓	11 Jan 21			
Audit 5: Community Strategy	15	Ian Brooke	✓	TBC			
*Audit 5: Environment	15	Jo Colwell	✓	1 March 21			
Audit 6: Accounts Receivable	15	Nigel Kennedy	✓	19 Oct 20	✓		
Audit 7: Payroll and Overtime	15	Helen Bishop	✓	21 Sept 20	✓	Substantial	Substantial
Audit 8: Data Analytics	15	Nigel Kennedy	✓	10 Jul 20	✓		
Audit 9: Income Collection and Cashiers	15	Nigel Kennedy	✓	8 Mar 21			
Audit 10: Treasury Management	12	Nigel Kennedy	✓	2 Nov 20			
Audit 11: Planning Services	15	Adrian Arnold	✓	5 Oct 20	✓		
Audit 12: Corporate Performance	15	Helen Bishop	✓	7 Dec 20			
Audit 13: *Enforcement Restructure	12	Nigel Kennedy	✓	TBC			

EXECUTIVE SUMMARY - PAYROLL AND OVERTIME

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

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

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	0
Low	1

TOTAL NUMBER OF RECOMMENDATIONS: 1

CRR/BAF REFERENCE:

- 1.Enable An Inclusive Economy
- 2.Deliver More Affordable Housing
- 3.Support Thriving Communities
- 4.Pursue A Zero Carbon Oxford

BACKGROUND:

Oxford City Council (the Council) process the payroll for c.1,200 staff per month via their iTrent system. The payroll team is led by the Payroll Manager who is supported by two Payroll Technicians and one System Administrator. The Council's Human Resources (HR) team, which is led by the HR Manager, process new starters, leavers and variations to employee contracts. These details are passed onto the payroll team for processing to ensure correct payments are made as per the employees' contract.

The Council use third party payment processor MidlandHR to process all payments based on the reports provided by the Council payroll team. Payments are only made once they have been approved by an authorised signatory from the Council.

Our approach was to conduct interviews to establish the controls in operation for each of our areas of audit work. We reviewed a sample of 18 starters and leavers from April 2020 to November 2020. We ensured there were appropriate starter and leaver forms in place, these

were authorised by the corresponding line managers and the payroll system was aligned to the forms. We also reviewed a sample of 20 mileage and expense claims ensuring these were approved and there was appropriate evidence to support the expense claims.

GOOD PRACTICE:

We noted the following areas of good practice:

- Of the sample of 9 starters and 9 leavers
 - All starters and leavers were added and removed from the system respectively and in a timely manner
 - Leaver forms and contract forms were sufficiently authorised by the HR team and line managers, before the details were uploaded to the payroll system
 - All Starters were paid in line with their contract and employee payslips were in line with the monthly payroll report
- Of the sample of 10 expenses and 10 mileage claims reviewed:
 - Each claim was approved by the corresponding line managers on the payroll system, and not submitted onto the expenses system until the claim was completed
 - All expense and mileage claims reviewed were in line with the expenses policy and had sufficient evidence and legitimate business cases against each claim
 - Each mileage payment was recalculated correctly and the payroll system monitored the number of miles being claimed ensuring that rates were adjusted if any employee claimed over 10,000 business miles
- The parameters agreed between the Council and MidlandHR are appropriate and in line with HMRC legislation
- Monthly payroll reconciliations were adequately documented and reviewed by separate members of the team. Documentation was maintained and there were clear audit trails for the payments made
- Payroll runs are prepared and reviewed in line with the Payroll Processing Guide, in a timely manner, with appropriate segregation of duties.

KEY FINDINGS:

Finding	Summary of Recommendations	Owner	Due date
The nominated signatories within the Processing Guide (used for BACS payroll approval) was outdated and did not mirror the Council's authorised signatory listing (Finding 1 - Low)	<ol style="list-style-type: none"> 1. The Council should liaise with MidlandHR to update their processing guide, to only include current members of staff with the appropriate authorisation to sign BACs payments 2. The Council should ensure the processing guide is aligned to the Council's, ensuring congruence annually or when changes are made. <p>Management Response:</p> <p><i>Agreed - If someone did refer to the out of date list MHR wouldn't accept the authorisation and return it to us and not process the payment.</i></p> <p><i>MHR wouldn't get involved in updating the processing guide now as it is not a generic document and only applies to</i></p>	Simon Edginton, Payroll Manager	31 st January 2021

	<i>OCC so we would amend internally. We have started to do this and we will be removing the authorised signatures from it as they are dealt with separately as and when needed.</i>		
--	---	--	--

CONCLUSION:

There are robust payroll controls being demonstrated by the Council. During the course of our review we found one minor exception which requires the Payroll Processing Guide to be updated, but have otherwise found all controls to be working effectively. We have therefore provided substantial assurance over control design and operational effectiveness.



LOCAL GOVERNMENT SECTOR UPDATE

Quarter 3 Update

November 2020

SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

FINANCE

Government launches review into council's governance

The government has launched a 'rapid review' into governance at Nottingham City Council, its second review of this kind announced in under a week.

The new review will focus on governance and risk management issues associated with the council's formally wholly-owned energy company Robin Hood Energy.

The probe will scrutinise the robustness of any forward-looking commercial strategies or plans and the council's longer-term approach to borrowing and investment.

Local government secretary Robert Jenrick, said: "I have been monitoring the very serious situation at Nottingham City Council closely, including the collapse of their Robin Hood Energy scheme. "A review such as this is not undertaken lightly - councils have a duty to manage taxpayers' money responsibly and should be held to account where they are found to have failed to do so."

The review will be led by Max Caller, consultant and lead inspector for the Best Value inspection of Northamptonshire County Council, launched in 2018 due to financial failings.

Caller will be supported by a financial reviewer, Julie Parker, who is a former chief finance officer and section 151 officer at both Barking & Dagenham Council and Haringey Council.

<https://www.publicfinance.co.uk/news/2020/11/government-launches-review-councils-governance>

Thurrock Council borrows £125m from PWLB

Thurrock Council has taken out a £125m loan with a maturity of just two years from the Public Works Loan Board. The loan, set to mature in 2022 at a rate of 1.77%, was outlined in statistics compiled by the Debt Management Office. It is the first loan the council has taken out with the facility in 2020-21, after it borrowed £100m in March. It is unclear whether Thurrock is refinancing existing debt or using the loan for other purposes but PF had not received a reply from the council for information at the time of publication.

In June, the council rejected claims made in a report by the Financial Times which raised concerns over its investment strategy, that has seen the authority borrow more than £1bn in short term loans from other councils. The article said council officers had signed off loans from about 150 local authorities and council pension schemes, of which £702m of was in renewable energy deals.

Thurrock said it began to borrow from other authorities as it represented better value than the rates under the PWLB. A council report in July said that gross debt within the council is £1.4bn, with the majority consisting of loans from other local authorities at £1bn.

<https://www.publicfinance.co.uk/news/2020/11/thurrock-council-borrows-ps125m-pwlb>

The lowdown: Sutton's £250m fintech bond deal

Following the pricing of a £250m bond by the London Borough of Sutton, *PF* speaks to David Whelan, managing director of public sector treasury at Link Group, which advised on the deal.

How much cheaper for Sutton is the bond compared with the comparable rate from the Public Works Loan Board?

The rate for the bond was 1.732%, and the comparable rate from the PWLB was around 2.6%, so the council stands to save around £890,000 per annum.

Over the course of the £100m issuance, the council will save around £26.7m, though this figure is undiscounted.

What was the attraction of the European Primary Placement Facility over more traditional means?

When you are accessing the public bond markets through traditional means, the cost - over and above the interest cost - of issuance can be quite high. This is the cheapest way to issue and we were able to get the tightest issued spread on a conventional bond in the local authority market in recent years. The process can also be quite lengthy. What we were trying to do - as well as secure a very good effective interest rate on the borrowing - was to ensure that the other costs are kept to a minimum.

<https://www.publicfinance.co.uk/news/2020/11/lowdown-suttons-ps250m-fintech-bond-deal>

A single year spending review a 'sensible decision'

However the IFS has suggested it is not possible in the current climate to set credible fixed spending limits. A report from the institute recommended a delay to decisions on spending in future years until some of the uncertainty over Covid-19, Brexit and the future of the economy has dissipated. In our view that would be a sensible decision, the uncertainties are just too great at the moment, not just about the future state of the economy and tax revenues but also about the future demands on public services that will need to be met."

The IFS added that however long the spending review will cover, it will be fraught with difficulties and there will be some tough choices facing chancellor Rishi Sunak.

These include how much of the £70bn additional funding for departments this year in response to the pandemic will be allocated for future plans, and if any of the Covid-19 expenditure is carried over on a permanent or semi-permanent basis.

<https://www.publicfinance.co.uk/news/2020/09/single-year-spending-review-sensible-decision>

Covid-19: Fighting fraud in real time

In unprecedented circumstances, the local authority response to the administration of Covid-19 business grants has been very good. The administration of grants was swift and local authorities used existing due diligence and robust measures to prevent fraud. In addition, they shared intelligence in real-time with NAFN to benefit others alongside accessing new services developed by both the public and financial sector to support prevention, verification and validation. This response has yielded excellent results and based on current intelligence, the value of prevention and recovery far outweighs recorded losses.

Fraud awareness during this time is widespread and the pandemic has highlighted the importance of:

- enhanced fraud awareness throughout public sector organisations;
- ensuring all officers have knowledge of the appropriate fraud reporting channels;
- provision of all the necessary tools to achieve required outcomes including an automated verification and validation system;
- increased resource in anti-fraud teams; and

- effective communication channels between anti-fraud, revenues, finance, payroll and procurement teams

<https://www.publicfinance.co.uk/opinion/2020/09/covid-19-fighting-fraud-real-time>

Government urged to address Covid-19 backlogs

The upcoming Comprehensive Spending Review must allocate funding to address record public service backlogs, CIPFA and the Institute for Government have warned.

The warning was made in a joint report which said that despite £68.7bn of extra funding since March, huge backlogs have developed as result of the pandemic, most notably in the judicial and healthcare systems. The report said the crown court case backlog is now equivalent to 56,000 cases, 42% higher than pre-pandemic levels and the highest in over 20 years. CIPFA chief executive Rob Whiteman, said: “In a moment where public services are facing great, unprecedented challenges, we must be able to determine if they are ultimately reaching those they are intended to serve.

“There must be a clear plan from government on how short-term stimulus packages in the coming months will be aligned to a clear outcomes framework.

<https://www.publicfinance.co.uk/news/2020/11/government-urged-address-covid-19-backlogs>

Council confirms £60m loan for airport

Luton Borough Council has approved the borrowing of £60m, which it then intends to lend to its wholly-owned London Luton Airport Ltd as it seeks to offset losses resulting from Covid-19.

The loan was approved during a restricted session of an executive committee, and is the first of two loans the council intends to provide to the airport over the coming year. The council said that without the loans, the airport could become insolvent and cease trading, meaning it would be unable to make further dividend payments that the council could then use to fund services.

“As LLAL is so important to our local economy and in providing vital public funds to support the most vulnerable people, the council is working with the company to get the town through this period,” the council said.

“The council is to borrow £60m and lend it to LLAL. This is because the council is able to borrow money at a cheaper rate of interest than LLAL can.” Luton added the airport will repay interest to the council at a higher rate than the council borrows at. The council said that, including the interest payments, the airport would be able to deliver £32m back to the authority next year to support frontline services.

<https://www.publicfinance.co.uk/news/2020/09/council-confirms-ps60m-loan-airport>

IT

A cyber-attack in February cost Redcar and Cleveland Borough Council more than £10m, a report has revealed.

The report, presented to a cabinet meeting earlier this week, estimated the total cost of the attack to be £10.14m, and the council has been working with the government to receive financial support. The council said prior to the attack, it had appropriate cyber-security arrangements in place to meet the standards set out by the Public Services Network. However the attack did have quite a large effect on council operations, the report said. The report said: “In terms of our response to the cyber-attack, the council acted quickly and effectively, working extremely hard to mitigate the effects on our key services and most vulnerable residents. “However, the attack did permeate almost all functions of the council, and the

required response and consequential impacts will have a bearing on the council's finances. "The report added the proposed financial support from the government would be used to fund additional costs, lost income and actions taken to reduce the impact of the attack. Any support provided in advance would be held in reserve and drawn down as required, the report said. Reports just after the attack in February confirmed the council suffered a ransomware attack with hackers demanding money to restore functionality to its IT system. Redcar said recovery and replacement work to the IT infrastructure and systems makes up £2.4m of the overall cost.

Since the attack, the council said it has made additional improvements to cyber defences, with "further upgrades" planned.

Redcar has also put itself on the list of pilot authorities to enrol on a National Cyber Security Centre scheme, which it said will make its cyber defences "more advanced" than most other local authorities. Elsewhere in the report, the council predicted Covid-19 has cost the council around £13m in lost revenues and additional costs, with £11.3m received from central government to date - leaving a funding gap of £1.65m.

There are multiple ways to reduce the risks of attacks like this, such as cold storage backups and reduced user access. However, it is important to have strong and layered security controls in place that can prevent attacks from being successful in the first place, or to be able to quickly detect and respond where they have been able to get into systems. Only then can organisations minimize the economic impact of cyber-attacks to a manageable level."

Environment

This briefing note sets out the framework within which councils can begin to deliver ambitious action plans.

It explains some of the key issues surrounding carbon targets and budgets, and what levels of emission reductions are necessary to be consistent with the Paris Agreement.

This briefing is also part of a series, commissioned by the Local Government Association, which sets out what actions will be most effective for local government in the transport sector. It sets out a framework of intervention types which can be used to cut carbon. There is a huge diversity in transport-related CO2 emissions between local authorities today, and very different options and opportunities available for different places to tackle the problem.

This briefing and the six accompanying briefings do not provide a prescription of what must be done, rather a menu of options, from which various measures will need to be combined - in place-appropriate ways - to deliver change.

<https://www.local.gov.uk/decarbonising-transport-getting-carbon-ambition-right>

HOUSING

Three LGPS funds invest £97m in housing

Local government pension schemes in Lincolnshire, South Yorkshire and Tyne and Wear have invested a combined £97m into a ten-year residential investment fund.

The fund will be managed by investment firm Hearthstone Investment Management and will invest in a portfolio of homes for private rent in areas with strong rental demand and lower supply.

The houses and small apartment blocks will be aimed at families, professionals and key workers seeking long-term rented homes. Figures on the breakdown of investments by each of the

three LGPS funds have not been disclosed. Jo Ray, head of pensions at Lincolnshire Pension Fund, said “We were keen to invest in the residential sector, and in particular into a strategy involving houses and small block of flats.

<https://www.publicfinance.co.uk/news/2020/11/three-lgps-funds-invest-ps97m-housing>

New development levy set to boost revenue

How much money could local government raise from government plans to radically shake-up the process of negotiating developer contributions?

A white paper published in August proposes the biggest overhaul of the planning system in a generation, cutting regulations in order to accelerate the delivery of new homes across England.

The proposals would also introduce a new infrastructure levy to replace the system of securing developer contributions towards affordable housing, roads and schools.

The white paper called current arrangements “complex, protracted and unclear”, and said they result in proposals for an infrastructure levy would replace ‘complex, protracted and unclear’ developer contributions in uncertain outcomes, “which further diminishes trust in the system and reduces the ability of local planning authorities to plan for and deliver necessary infrastructure”.

However, Jacqueline Backhaus, partner at law firm Trowers & Hamlin, said that the mooted changes would “inevitably involve even less flexibility, as well as taking away the ability of local authorities to set the rates”. The proposed levy would replace planning obligations, negotiated with developers through Section 106 agreements, and the community infrastructure levy, which is charged by almost half of authorities.

<https://www.publicfinance.co.uk/news/2020/09/news-analysis-new-development-levy-set-boost-revenue>

Councils' capital activity suffers pandemic blow

Council investment in buying buildings dropped by 56% in the first quarter compared to last year, while spending on new construction projects fell just 14% according to government data.

Figures released by the Ministry of Communities and Local Government, based on returns from councils, showed the impact of the Covid-19 pandemic on capital spending between April and June.

Overall, quarterly capital expenditure dropped by 27% year-on-year, from £4.1bn to £3.0bn, while capital receipts fell 32%, from £465m to £318m. Scott Dorling, partner at law firm Trowers & Hamlin, said: “It is not surprising that local authority capital expenditure in the few months immediately following the pandemic is down compared with previous recent quarters.

<https://www.publicfinance.co.uk/news/2020/09/councils-capital-activity-suffers-pandemic-blow>

Council signs £600m regeneration deal

Harrow Council has agreed to create a regeneration joint venture worth up to £600m with developer Wates Residential, with plans including a new civic centre, school and up to 1,500 homes.

Agreement was made last night at a council cabinet meeting, where it decided to select the developer for the 50/50 Harrow Strategic Development Partnership.

A report discussed at the meeting said the council will have to borrow £23.8m, alongside providing land and capital receipts valued at £19.8m.

The report said the £23.8m loan will be paid over seven years, and will help fund work on three core sites in the area.

Graham Henson, leader of Harrow Council, said: “Through our partnership with Wates we have a once in a lifetime opportunity to make a real and lasting difference to the lives of our residents and boost the local economy.

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	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.



<https://www.publicfinance.co.uk/news/2020/09/council-signs-ps600m-regeneration-deal>

APPENDIX I - DEFINITION OF ASSURANCE

	fully effective.			
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.



FOR MORE INFORMATION:

Greg Rubins
Greg.rubins@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms. BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk