

INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Oxford City Council

2020/21



IDEAS | PEOPLE | TRUST

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SUMMARY OF 2020/21 WORK

Internal Audit 2020/21

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:

- Key Financial Controls - Data Analytics
- Accounts Receivable
- Channel Shift
- Planning Services
- Payroll and Overtime
- Treasury Management
- Companies Oversight
- Income Collection and Cashiers
- Corporate Performance

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 2020 to 31 March 2021 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 Car Paking, Community Strategy, Environment and Enforcement Re-structure for 2020/2021. However, it has been agreed with the Council that these will be moved to the 2021/22 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:
- The Council has seen a sharp increase in expenditure to support those in need, together with a sharp reduction in income from leisure centres, town hall room hire, car parks, rents from commercial premises, and earnings from its wholly owned companies Oxford Direct Services Ltd (ODS) and Oxford City Housing Ltd (OCHL). The overall adverse impact on the Council's general

fund, in this year alone, is estimated at around £12 million, with a further £17 million over the following four years. The Council has used their reserves to plug this gap, noting that this is a one-off measure. The Council is proposing £9.57 million of efficiencies and increased income over the 4 year period.

- The Council have implemented all recommendations due. In 2020-21, 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.
- Some audits planned have been deferred to 2021-22 as a result of the impact of Covid 19 but overall we were able to perform sufficient work to provide an annual opinion. All of our reports this year which contained an opinion, have provided substantial or moderate assurance, including three with substantial assurance on design and effectiveness (Payroll and Overtime, Treasury Management and Income Collection & Cashiers) and three with moderate assurance on design and effectiveness (Data Analytics, Companies Oversight and Accounts Receivable). The Council need to achieve substantial assurance on both design and effectiveness on a majority of their audit reviews in 2021-22 to achieve a substantial opinion overall. However, Covid 19 has presented control challenges for all Councils and the Council has done well to maintain its control environment under these circumstances.

REVIEW OF 2020/21 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	
Key Financial Systems (Data Analytics)	-	2	-	Moderate	Moderate	<p><u>Conclusion</u></p> <p>The data analytics undertaken has identified several exceptions in the key financial datasets provided. We have reviewed these with management and have confirmed they appear to have valid explanations</p> <p>Findings/Recommendations from Payroll:</p> <ul style="list-style-type: none"> • Within the duplicate key matching, it was found that two transactions were identified to be duplicates. The value of the single transactions amounted to £3,350.39. • Through a duplicate match, a total of 24 employees had duplicate forenames and surnames however difference personal references. • A total of 13 employees were found to have the same whole address details with different surnames. <p>Findings/Recommendations from Accounts Payable:</p> <ul style="list-style-type: none"> • After a duplicate match based on creditor reference, invoice number and value of payment which returned a total of eight transactions with a potential duplicate value of £13,073. • Four suppliers were not matched after corresponding the creditor references for all transactions to the creditor references in the list of suppliers. • A total of 149 suppliers with duplicate bank details to at least one other entry was found. • After matching supplier bank details against employee bank details, ten entries were found to be (employees and suppliers) matched. • Through a match for supplier name and address, a total of 16 duplicate Suppliers were identified.
Accounts Receivable	-	1	4	Substantial	Moderate	<p><u>Conclusion</u></p> <p>The Council has financial systems in place that are designed effectively to ensure that income transactions are not processed without appropriate</p>

					<p>approval, and a segregation of duties is maintained where required. However, there have been some exceptions with sending out timely reminder letters and some minor issues relating to due diligence for new customers.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> • For three overdue ODS debts, reminder letters had not been sent in line with the agreed timescales. Therefore, there should be a monthly review completed by the Incomes Team Leader to verify that each Income Officer is running the reminder letter reports as expected. • To review the ODS Income & Collection policies and Write-Off policies annually • To explore options to automatically check customer amendments or for the Income Team Leader to undertake an additional quarterly check to ensure there have been no irregular patterns of changes. • To align the Sundry Debtors Guide with the levels of due diligence options within Agresso and to outline further examples of when due diligence is not appropriate. • In a sample of 15 invoices, there was one instance where approval was not obtained from a relevant manager prior to the invoice being raised by an Income Officer and therefore all Income Officers should be reminded, via email, of the importance of receiving approval from the relevant Service Area signatory before raising an invoice. 	
Channel Shift	-	3	1	Moderate	Moderate	<p><u>Conclusion</u></p> <p>Although there are indicators which measure the performance and customer satisfaction, the key to how these feed into the objectives set out in the Customer Experience strategy is unclear as formal KPIs have not been established. Furthermore, a key benefit of the channel shift project is the cost savings it will achieve, however it is not clear how these are monitored to provide value for money.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> • For management to review the customer experience risk register and ensure the controls identified are monitored and reviewed at least quarterly and new risks are added to the risk register accordingly • To formalise the KPIs that the Council will be using to monitor each of the objectives set out in the customer Experience Strategy

						<ul style="list-style-type: none"> • Cost saving plans for the channel shift project as a whole should be developed to allow for regular monitoring of actual savings versus expected savings • To engage with website users to ascertain additional information as to why they were not satisfied with the web service and to ensure content is easily accessible
Planning Services	1	3	Moderate	Substantial	<p><u>Conclusion</u></p> <p>Overall, there are effective systems in place for performance monitoring and the statutory planning committees are operating effectively. The controls within the electronic systems governing customer applications and case work management are also effective. However, there is not an up to date strategy and action plan in place.</p> <p>Findings/Recommendations:</p> <ul style="list-style-type: none"> • To update the 'Validation' strategy on a regular basis and action plans should be allocated to the relevant people and realistic timescales should be added • An overarching accountability document to be created clearly defining the roles and responsibilities of the team and officers/departments concerned with planning • Robust monitoring should be undertaken through the current management reviews with a greater focus on compliance with the laid down time scales for each team • The existing training programmes in place should be reviewed to ensure that they deliver the knowledge required to complete the work involved accurately and with appropriate emphasis on the importance of meeting the agreed time scales. 	
Payroll & Overtime	-	-	1	Substantial	Substantial	<p><u>Conclusion</u></p> <p>There are robust payroll controls being demonstrated by the Council. During the course of the review there was one minor exception identified which requires the Payroll Processing Guide to be updated, but otherwise all controls were found to be working effectively.</p> <p>Findings/Recommendations:</p>

						<ul style="list-style-type: none"> 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. To update the processing guide so it is aligned to the Council's, ensuring congruence annually or when changes are made.
Treasury Management	-	-	1	Substantial	Substantial	<p><u>Conclusions</u></p> <p>The Council has a Treasury Management Strategy in place, where the monetary and maturity limits for the sampled investments were undertaken in line with the criteria set in the Strategy. There are robust controls around monitoring of the Council's Treasury Management activities and performance reported to the Cabinet via reports and cash flow forecasting is undertaken on a daily basis. We noted minor issues around timeliness of the reconciliations undertaken.</p> <p><u>Findings/Recommendations:</u></p> <ul style="list-style-type: none"> It was identified that eight bank reconciliations were not completed within two weeks from the end of the month, relating to General Funding for the quarter to September. Therefore reconciliations should be prepared and authorised within two weeks from the end of the month, in line with good practice. Half-yearly spot checks should be undertaken and recorded to ensure compliance.
Companies Oversight	-	5	4	Moderate	Moderate	<p><u>Conclusions</u></p> <p>Overall the Council have a Moderate control design for the management of their companies and joint ventures. The governance structures in place were defined and allowed for oversight by officers and members, including from those of non-governing parties. Furthermore, it was noted in our interviews with key personnel from each organisation that the relationship between the Council and its companies was reasonably strong and has been improving over the past few years. The interests of both parties were aligned, however, there was a general consensus in the case of ODS where more autonomy would allow them to expand and grow quicker.</p> <p>Issues were identified in relation to clarity around the role of CMT with regards to oversight and also the effectiveness of the Council's internal governance</p>

structure for company oversight, however, these were subject to mixed views. From our discussions, the concerns were more directed at the governance frameworks being too cumbersome as opposed to the alternative which is that the oversight of the companies is inadequate. This was a point that was raised in the public interest report of the London Borough Council of Croydon's management of their wholly-owned company, Brick by Brick.

Information sharing was transparent, both financial and non-financial, and members of the Shareholder informed us that they were generally happy with the content and format of reports to them.

Findings/Recommendations

- To update the job description of the Head of Financial Services to include details around their responsibilities in monitoring and communication with the companies and joint ventures
- Shareholders should give consideration as to the future direction in relation to the pipeline of procurements of supplies and services by both OCC and their wholly owned companies
- For the council to have formal discussions with the Executive team of each of their companies to assess whether they can take actions to ensure that there is a positive mutual relationship
- Members of the Shareholder Group and the Panel should meet privately to discuss the role of the Panel
- The Council should ensure that all outstanding SLAs are signed by the year-end and SLAs with OCHL for the 2021/22 are signed before 30 April 2021
- Succession planning arrangements should be made by the Housing Company to ensure that the Business Plan objectives can be delivered if key staff were to leave the organization
- To nominate an interim representative to the ODS Board until the new Executive Directors are recruited. They should then arrange for one/two of the new Executive Directors to take a permanent role on the ODS Board.

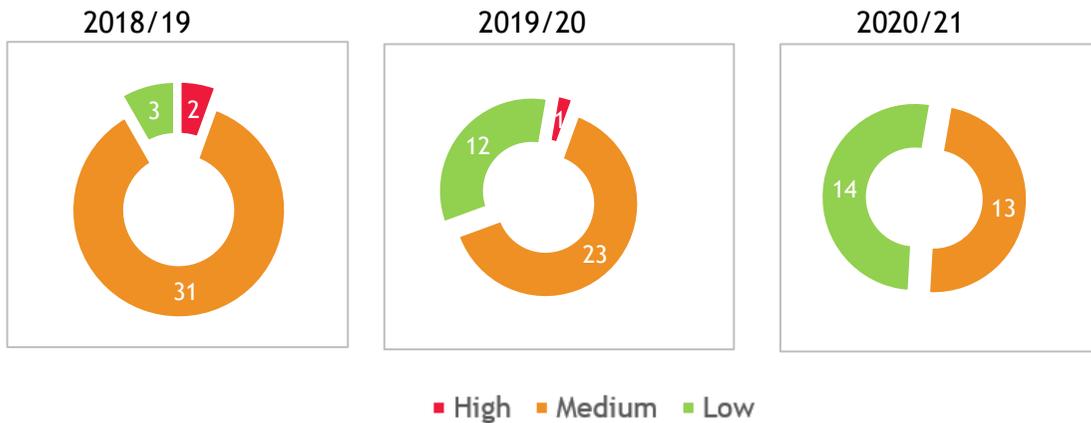
Income Collection and Cashiers - 1 -	Substantial	Substantial	<p><u>Conclusions</u></p> <p>Overall, there is an effective system in place for the billing of Council Tax and Business Rates and adequate monthly reconciliations to monitor Council Tax, Business rates and Grant Payments. Whilst the debt recovery procedures paused for three months due to the Governments Covid response the Council are now continually monitoring the above on a monthly basis.</p> <p>Whilst there are adequate controls in place we noted that user access forms and their corresponding approval of the PARIS System should be retained by the Council to maintain an appropriate audit trail.</p> <ul style="list-style-type: none"> To ensure that all access forms are submitted prior to the user gaining access to the PARIS system and to retain access of forms so where additional requests are made, management are aware of the current level of access the user has and whether this is appropriate.
Corporate Performance - - -	N/A	N/A	<p>We facilitated a workshop by the Council which:</p> <ul style="list-style-type: none"> Identified what a good KPI looks like How to ensure KPIs are measurable Considered the new KPIs brought forward by services Ensuring that KPIs align with the Business Plan/Strategy Reviewed activities that do not form a KPI but the Council may wish to monitor and determine how these were captured.

SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

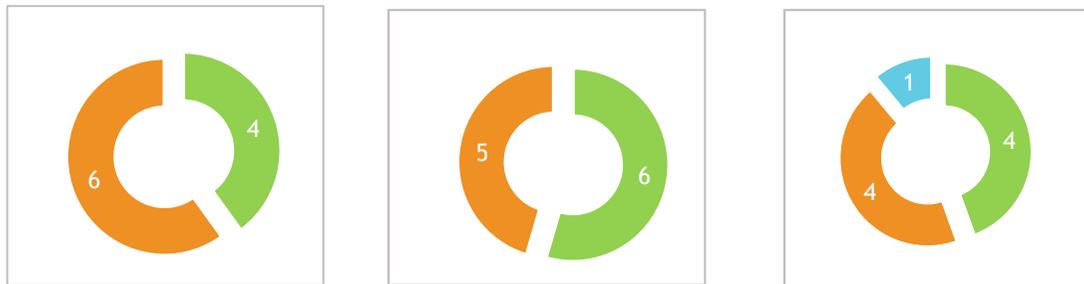
Recommendations

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In 2020 - 21, there were a total of 27 recommendations issued; 13 Medium and 14 Low recommendations. In comparison, in 2019 - 20 there were a total of 36 recommendations; 1 high, 23 Medium and 12 Low recommendations. Although the Council is moving towards a state of better systems and control environment, the pandemic has had some impact on system controls.

Control Design



In 2020-21 there were four substantial and four moderate control design opinions issued, in comparison to 2019 - 20 there were six substantial and five moderate control design opinions issued. The Council continue to point us to high-risk areas eg Companies Oversight and Channel Shift however, good control designs are in place.

Operational Effectiveness



■ Substantial ■ Moderate ■ Limited ■ No

In 2020-21 there were four substantial and four moderate opinions issued. Whereas, in 2019 - 20 there were three Substantial and eight Moderate opinions issued. There was no limited effectiveness opinions issued. The Council has gradually become better at applying policies more consistently and effectively.

ADDED VALUE



USE OF SPECIALISTS

We obtained several financial data sets and carried out a data analytics exercise to identify exceptions within the data.



SUPPORT AND NETWORKING

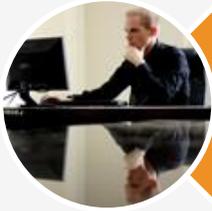
We undertook a members training workshop alongside external audit outlining the key areas covered by internal audit and outlined our new protocols process between the Council and its companies. We also facilitated a KPI workshop exercise with the Council's Heads of Service and identified the top three Corporate indicators to be included within each service area



BENCHMARKING AND BEST PRACTICE

We undertook a companies oversight audit review and benchmarked the controls and practices to other Councils with similar arrangements and fed these back to the Council.

KEY THEMES



PEOPLE

The Council welcomed our internal audits 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, particularly for planning services



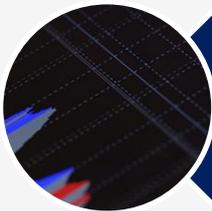
GOVERNANCE & STRUCTURES

Monitoring and governance processes were robust and strong team structures were identified within several of our reviews, including Companies Oversight, Planning Services and Channel Shift



POLICIES & 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, for example the Planning Services Validation Strategy and policies with Accounts Recievable



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 2020 to 31 March 2021 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.

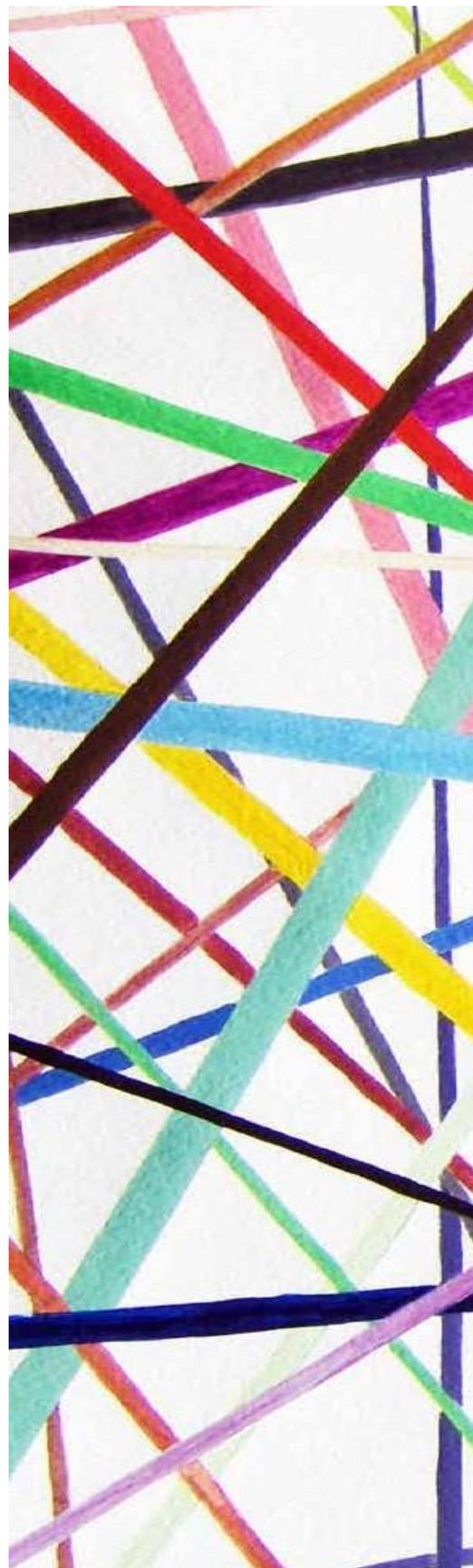
Report by BDO LLP to Oxford City Council

As the internal auditors of Oxford City Council we are required to provide the Audit Committee, and the Director 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 2020/21. 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 2020/21
- 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 4.5/5 for overall audit experience.	
Effective planning	We completed many of our reviews in the first three quarters of the year however, there have been limitations due to the pandemic and working remotely. We responded quickly to the urgent work request for the Capital Pooling Grant work showing we can be flexible. We also made changes to the Audit Plan mid-way through the year when we recognised that Car parking, Housing Rents and Community Strategy could not accommodate us and therefore focussed our efforts in other areas of the Council.	
Completion of the audit plan	We have finalised reports for all reviews for 2020/21 and agreed to delay reviews into 2021/22 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 2019/20. 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

ANNUAL OPINION DEFINITION	
Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

IA Comments:

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
 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 noncompliance 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.

RECOMMENDATION SIGNIFICANCE DEFINITION	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

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