
Internal audit summary report for Audit and Governance Committee

January 2012



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Plan outturn

2011/12 Audit Plan

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Audit and Governance Committee at its meeting in March 2011.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. At present we have completed **180 days out of a total planned 250 days (72%)**. This is in line with the profile of our Internal Audit plan. We commit to completing our plan ahead of the year end.

We have continued to review our Audit Plan on an ongoing basis to ensure that it meets the Council's risks. On that basis, we have made a number of revisions to our audit plan as outlined below:

- Given the work the Council has procured to review the new LAGAN system; we have reduced the days planned for reviewing this system to ensure we do not duplicate work in this area. We have used these days (4 in total) to increase our review of the ICT contract with the County;
- Our original plan included 5 days in the area of law and governance to consider Freedom of Information and the disclosure of expenditure over £500. The Council has not noted any issues with compliance in this area and the level of risk considered as low. As a result, this review has been deferred;
- We have utilised the days from the law and governance review to increase our days allocated to our work on the Council's Housing Revenue Account. This reflects the risks associated with the implementation of self financing. In addition, 2 days from this review have been allocated to follow up the issues noted with procedure notes identified from our review of the Annual Governance Statement in prior year.

Reporting Activity and Progress

Final reports issued since the previous meeting

- **Payroll**– We reviewed the controls in place around the payroll system. We have classified our findings in this area as **Low Risk**. The department has continued to make improvements since last year, with the majority of our recommendations implemented. Only one advisory issue remains regarding the need to investigate the Council’s position with VAT on mileage claims. We identified no control design issues in year. This suggests that the Council has controls in place which effectively address the risks associated with payroll. We noted no issues with controls around payroll processing, exception reporting and the processing of new starters. These are all deemed key controls by the Council’s External Auditors.
- **Housing Rents:** We have issued a **Low Risk** rating on the Housing Rents system. No issues were noted with the design and operation of controls around rent setting and processing of rebates. The Council has put in place effective controls to ensure that rents are set in line with the DCLG determination and are reviewed before being communicated to tenants. Two of the three issues identified relate to performance of reconciliations. No reconciliation is currently performed between the rents system and the Council’s Fixed Asset Register. The Council can therefore have limited comfort that the value of Council stock is correctly stated. Issues in this area have been noted as part of the close down process in prior years and therefore efforts should be made to perform a reconciliation ahead of the year end. In addition, the reconciliation of the rents system to the General Ledger and cash system are not currently signed to evidence performance and review.
- **Debtors:** Last year we gave medium assurance for in this area. The department has made considerable improvements to address the control deficiencies identified as well as implementing a series of new controls to enhance the effectiveness of the income process. We have therefore issued a **Low Risk** rating for 2011/12.

One medium risk issue was noted on the timely raising of invoices. All invoices are raised within departments and passed to the central income team for processing. 7/25 invoice request forms tested were dated 2 months after the service had been provided and 6/25 invoices were raised over one week after being received by the income department. This issue increases the risk that debts may become irrecoverable and that income may not be accounted for in the correct period. The Council should look to work with departments to ensure that the importance of raising invoices on a timely basis is reiterated.

- **Financial planning** – This review considered the setting and monitoring of Council’s Medium Term Financial Strategy (MTFS) and efficiency savings. We have issued a **Low Risk** rating in this area. The Council has made significant strides over the past few years to identify savings and deliver more efficient services. The Council has developed a MTFS which prudently forecasts its position over a 4 year period and has consulted widely on the impact of changes in Government Policy. There is a robust process for budget monitoring which is considered at both a cost centre and fund level. Monthly service line meetings have been introduced since June ’11 to ensure that budget holders take ownership for performance. Despite this good track record, the scale of the challenge over the next few years is significant and much of the good practice demonstrated will need to continue and be intensified if planned savings and service reductions are to be delivered. Our work identified the need to consider the wider implications of cost savings in conjunction with performance and quality indicators. The Council is currently rolling out use of the CorVu system which will help to facilitate this link.

We identified a number of issues around standardisation of reporting and the quality of budget information. Whilst the budgetary control process introduced is robustly designed, we noted that the standard of explanations for variances and documentation of action plans was varied. The Budgetary Control manual (currently in draft) should be used to introduce standard methods in these areas. In

relation to your MTFs, you have set a challenging and robust budget after going through a process of extensive consultation.

The following reports have been issued with medium risk ratings and have been brought in full to this meeting at the request of the Chair:

- General Ledger;
- Creditors – at the time of issuing this report, this report had not been finalised. We hope to bring the completed report in full to this meeting;
- Collection Fund; and
- Trade Waste

Fieldwork and draft reports

Draft reports have been issued and/or fieldwork has commenced in the following areas: -

- Housing Benefits
- Risk Management and Performance
- Standard Procedures Review
- Commercial Property
- Computer Assisted Audit Techniques
- IT Reviews
- Contract Assurance

Appendix One – Plan Progress

Review	Days	Amendments	Overrun	Revised days	Quarter per plan	Progress
General Ledger	10	0	-	10	2	Final report issued
Debtors	10	0	-	10	3	Final report issued
Creditors	10	0	1	11	3	Draft report issued
Payroll	10	0	-	10	3	Final report issued
Collection Fund	10	0	-	10	2	Final report issued
Cash Collection	10	0	-	10	1	Final report issued
Treasury Management	5	0	-	5	2	Final report issued
Housing Benefit	10	0	-	10	3	Draft report issued
Fixed Asset	10	0	-	10	4	To commence in Q4
Housing Rents	5	0	-	5	3	Final report issued
Risk Management and Performance Monitoring	15	0	-	15	3	Draft report issued
Law and Governance	5	-5	-	0	1	-
Standard Procedures Review	0	2	-	2	4	Scoping commenced
Homelessness	5	0	-	5	1	Final report issued
Car Parking	5	0	-	5	2	Final report issued
Trade Waste	5	0	-	5	2	Final report issued
Commercial Property Income	5	0	-	5	2	Fieldwork concluded
Budgetary Control	10	0	-	10	2	Final report issues
Year end Support	10	0	-	10	4	To commence in Q4
Procurement CAATS	5	0	2	7	2	To commence in Q4
IT Patching	7	0	-	7	4	Fieldwork commenced
LAGAN	10	-4	-	6	4	Fieldwork commenced
ICT Contract Review	8	4	-	12	4	Fieldwork commenced
Contract Assurance	10	0	-	10	2	Draft report issued
Project Governance	5	0	-	5	4	To commence in Q4
Fraud Awareness	5	0	-	5	1	Completed
HRA Cashflow	10	-3	-	7	4	Scoping commenced
HRA Repairs and Maintenance	0	6	-	6	4	Scoping commenced
Follow Up	10	0	-	10	-	Ongoing
Audit Management	30	0	-	30	-	Ongoing
TOTAL	250	0	3	253		

Summary of recommendations (final reports only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
Car Parking	0	2	6	12	MEDIUM
Cash Collection & Establishment	0	3	3	12	MEDIUM
Treasury Management	0	1	3	6	LOW
Homelessness	0	2	1	7	MEDIUM
Debtors	0	1	2	5	LOW
General Ledger	0	2	3	9	MEDIUM
Trade Waste	0	3	5	14	MEDIUM
Financial Planning	0	1	2	5	LOW
Housing Rents	0	1	2	5	LOW
Collection Fund	1	0	3	13	MEDIUM
Payroll	0	0	2	2	LOW
Creditors	TBC				
Total	1	16	32	-	

Appendix Two – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

Spending Review – One Year On

A year ago, the markets were eagerly anticipating the announcement of the Coalition's first Spending Review settlement, setting out plans for dealing with the deficit and the public sector debt mountain.

Before the Chancellor's announcement, we assessed the impact of the fiscal squeeze on output and jobs in private sector industries and different regions¹, which we subsequently updated after the announcement. Our estimates were a reality check:

- Around 435,000 private sector job losses by 2014/15 in addition to the loss of public sector jobs (then estimated by OBR at 490,000 but later revised down to around 400,000 by 2015/16).
- The hardest hit regions were expected to be Northern Ireland, Scotland, Wales and the North East of England (in terms of job losses as a percentage of total employment in these regions).
- The key sectors worst affected by the cuts were expected to be construction and business

One year on, we take a look back and assess what has happened by reviewing:

- The key economic developments to date, including growth prospects for the global and UK economies, the key tax and spend changes in the last year and the outlook for the underlying fiscal position.
- The key impacts of public spending cuts on the labour market for both public and private sector employment (by sector and region as well as in particular age groups).
- The fiscal policy options that the Chancellor may consider as he prepares his Autumn Statement on 29 November.
- The views of the public on how the principles underpinning the Spending Review – of Reform, Growth and Fairness – are being achieved, and the particular challenges that lie ahead for growth and public service reform

Developing a Cloud Strategy

By now, you've undoubtedly heard about cloud computing. Traditionally implemented as a method to cut and contain information technology (IT) costs, it's no longer considered just a better IT solution, but rather, a better *business* solution.

The key to make cloud a value-added part of your organizational framework is to develop a sound strategy at the outset. Today's business leaders are increasingly using the cloud to transform their capabilities, gain business agility and competitive advantage. But what are the implications for public sector agencies and government organisations? What should public sector CIOs consider when preparing for this dynamic business trend?

This paper is designed to help you on your journey as you select and develop your cloud solution. In this paper we:

- explain cloud computing and the various deployment and service models
- highlight the implications of cloud on the public sector (perceived barriers and benefits)
- review the public sector experience to date in various jurisdictions around the world
- outline an approach to developing a cloud computing strategy.

Making the most of HRA reform

As the legislation to reform the Housing Revenue Account concludes its passage through Parliament we thought it would be useful to examine the opportunities and risks arising from the changes.

In particular, we wanted to better understand the impact of the reforms over time and explore the extent to which a new self-financing regime could increase investment in affordable housing.

While we recognise that HRA reform will affect councils in different parts of the country in different ways and that the changes will be shaped by other factors (notably public spending and borrowing constraints, housing benefit reforms, capital market conditions, and the push for more localism), we have started from a position that the new regime is a positive step.

The reforms are complex and some aspects are controversial, but overall the legislation has cross-party support. Moreover, many local authorities (with registered providers and developers) are actively exploring ways to make the most of HRA reform. The Smith Institute has been tracking HRA reform since it was first introduced in 2009. PwC has meanwhile been advising Government on the shape and scope of the reforms and working with councils on what the financial effects might be.

We wanted to combine our expertise and look beyond the technical details in the Bill and associated guidance and look at the medium to long term investment prospects. How much investment will HRA reform unlock? And how should councils best prepare themselves?

All publications can be read in full at www.psrc.pwc.com/.

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