INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Oxford City Council

2022-23

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SUMMARY OF 2022-23 WORK

**Internal Audit 2022-23**

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:

* Car Parking
* Income Generation
* Change Programme
* Enforcement Restructure
* IT Audit
* NNDR & Business Rate Pooling
* Sickness & Absence Management
* Treasury Management
* Contract Management and Procurement

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 2022 to 31 March 2023 was carried out in accordance with the internal audit plan approved by management and the Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

**Head of Internal Audit Opinion**

The role of internal audit is to provide an opinion to the Full Council, through the Audit Committee (AC), on the adequacy and effectiveness of the internal control system to ensure the achievement of the 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:
* In 2022-23 the Gross expenditure of the Council equated to £163.26m this was made up of Central Services, Planning Services, Cultural Services and Housing Services (to name a few), a total income of £138.9m realising a total net spending of £24.36m.
* In 2023/24 the Central Government are planning on restarting the Revenue Support Grant scheme the grant will equate to £197,000 this was nil in 2022-23. In addition, the Council’s Business rates income in 2022/23 was £7.1 million however this is estimated to increase in 2023/24 to £8.5 million.
* The Council have not implemented all recommendations due for 2021-22, a total of 11 recommendations remain outstanding for the Environment Audit. However, recommendations raised in 2022-23 have been completed apart from three high recommendations for Income Generation which are due to a new Asset Management system being implemented the revised due dates for these recommendations have been agreed with management.
* Our reports this year which contained an opinion, include two with substantial assurance over design and effectiveness (Car Parking and Treasury Management) three with moderate assurance on both design and effectiveness (Change Programme, Sickness & Absence Management and Contract Management and Procurement) and two with limited assurance on both design and effectiveness (Income Generation and IT Audit). In comparison to last year there was only one report with a limited opinion on control design (Private Rented Sector). The Council need to achieve substantial assurance on both design and effectiveness on a majority of their audit reviews in 2023-24 to achieve a substantial opinion overall.

REVIEW OF 2022-23 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** |  |
| Car Parking | - | - | 2 | Substantial | Substantial | Conclusion  The Council’s controls and processes within car parking are being adhered to and the council are maximising efficiencies in terms of the cost of operation of its facilities and income collection including within the recent cashless pilot.  Findings/Recommendations:   * The Parking team should be reminded via email from the Assistant Parking Manager to check dates input into the Imperial System for resetting the discount period following an appeal by a customer. The Council should also maintain consistent communication with Civica to resolve the interfacing issue between Civica Pay and Imperial until it is resolved. Consideration of whether to obtain legal advice surrounding the interfacing issue should be made * All part-payments accepted as full payments should require the approval of the Assistant Parking manager or the Enforcement Team Leader via email before being approved in Imperial and retained on the Imperial case record or in the Parking team’s shared drive. |
| Income Generation | 3 | 2 | 2 | Limited | Limited | Conclusion  The Council’s approach and processes surrounding income generation activities, including from its trading companies are effective, including how the Council facilitates and considers ‘invest to save’ business cases. However, there are some exceptions including where commercial properties were billed incorrectly, commercial rent was not reconciled between Uniform and Agresso, rent arrears were not recovered in a timely manner and the change note process being susceptible to human error  Findings/Recommendations:   * Due to a delay in collecting £1.1m and £558k outstanding as a result of incorrect billing a detailed spreadsheet/database should be set up between the Property and Asset Management team and the Income team. At monthly meetings between these teams the database should be reviewed to prompt any action on change notes that have not been actioned. Both teams should complete an immediate reconciliation of the entire commercial property portfolio to confirm rent is billed correctly. It should be investigated whether the new asset management system could interface directly with Agresso to reconcile the rent billed to tenants with the property management database * The Property and Asset Management team and the Income team should undertake quarterly checks between subscriptions on Agresso and the asset management database prior to billing to identify any variances between the two systems which should be amended once identified * Clear processes should be established where a debt hits a certain threshold for the relevant surveyor to be contacted to support the development of a payment plan when arrears reach £25k. The Property and Asset Management team should maintain a log of queries received from the Income team and be allocated to the relevant team leader who logs response and clearing of the query * The Property and Asset Management team should set a rent review reminder into Uniform for stepped increases in rent so that when the rent review report is run this will identify all tenancies where the rent should be increased and remind the income team to implement the stepped rent increase in billing * The Income Team should create a change note guidance document and hold recorded training sessions for the Property and Asset Management team to highlight requirements for completion of change notes. * The Commercial Manager should revise KPIs in the Sales and Marketing Plan to ensure they are SMART and they should be monitored through monthly Head of Service reports on CorVu * The Town Hall team should liaise with the IT team and Business Improvement team to explore the potential data outputs that can be obtained from the website and if the data can be extracted the Commercial Manager should review it monthly to support the Council’s marketing strategy |
| Change Programme | - | 3 | 1 | Moderate | Moderate | Conclusion  Overall, the Council have moderate controls in place for the management of its Change Programme. The Council demonstrated good governance for the Fit for the Purpose Programme, with oversight routes for projects, workstreams and the overall programme. However, records of Change Board meetings, performance reporting and the overview of financial savings from projects could be formalised.  Additionally, while Change Agents have been recruited throughout the Council, Change Agents did not understand fully their roles and responsibilities and platforms were not in place to share best practice for promoting change in the Council. However, the Council has undertaken pulse surveys to assess the morale within the organisation.  Findings and Recommendations   * To develop SMART critical success measures for all workstreams and report to the Change Board and CMT * The Action Log for the Change Board should be amended to include revised implementation dates when actions have not been completed by their due date, explanations where actions are overdue and the actual completion dates of ongoing actions * To identify further training opportunities and/or guidance on change agents roles and responsibilities, including expectations * Following the change in role of the Change Agents, they should be invited onto the relevant project boards or similar to raise any issues and feedback from across the organisation. |
| Enforcement Restructure | 0 | 1 | 1 | Substantial | Moderate | Conclusion  There is a good understanding of statutory duties and responsibilities in the Regulatory Services & Community Safety team. The Corporate Enforcement Policy recognises that its regulatory services play an important role in ensuring a level playing field for business, fairness for all and in particular, protection of the vulnerable. There is a dedicated Head of Regulatory Services & Community Safety who engages regularly with senior team members.  Whilst the restructure is working well, the reporting structures are inconsistent between Regulatory Services and Community Safety. In addition, there are several KPIs being monitored and we identified minor weaknesses around the process, accuracy and value of the information produced to enable informed operational decisions.  Findings/Recommendations   * There is a corporate level KPI, regarding affordable housing documented in the Council’s Regulatory Services & Community Safety Service Plan 2022-23. This is a complex KPI, where only one person has the understanding and instructions to complete the calculation, potentially creating a single source of failure risk. Mitigating actions against this risk should be taken; by sharing the local procedures and training another person to calculate the KPI * Team service level KPIs are monitored and reported via Smartsheet. The information includes a year-end target, actual and target for the reporting period in a RAG status. The information was recommended to be enhanced for decision making by including the year-to date figures. |
| IT Audit | 2 | 3 | 2 | Limited | Limited | The summary of this review has been removed at the request of the Council. |
| NNDR & Business Rate Pooling | 0 | 2 | 1 | Substantial | Moderate | Conclusion  There are adequate policies, procedures and controls in place to manage NNDR and Business Rates Pooling with some exceptions. Evidence was not obtained in order to support applications of discounts in some cases, procedure notes have not been updated following the introduction of a new system and reconciliations were not subject to separate review.  Findings/Recommendations:   * In our sample £11,000 of charity relief was applied despite ineligibility. The Revenues team should be reminded by the Senior Revenues Officer in a minuted discussion or via email to ensure the Charity number is recorded on the occupier’s diary note on Civica and next quarter a sample of occupiers receiving charity relief should be reviewed to assess whether compliance has improved * The Revenue team’s procedure notes should be updated with screenshots and instructions on how to complete the process on Civica and saved to a central folder to ensure accessibility for staff * Daily reconciliations between PARIS and Agresso should be retrospectively reviewed after it has been submitted. The initials and date of review should be recorded in the reconciliation spreadsheet |
| Sickness and Absence Management | 0 | 3 | 1 | Moderate | Moderate | Conclusion  The Council have an effective sickness absence management process and adequate controls and triggers in place to monitor and manage sickness absence effectively. The return to work process has also been monitored effectively including in cases employees were working remotely. However, there were some exceptions where return to work records were not held, required medical evidence was not on record, sickness end dates were not submitted in a timely manner causing incorrect pay and concerns about the iTrent system were raised.  Findings/Recommendations:   * 66% of our sample did not have adequate return-to work information. The Management Guidance- Attendance Management document should be updated to contain a precise timeframe for return-to-work interview completion. The People Team should email all line managers to remind them of the expectation that return-to-work interviews should be held and recorded following employee absence. * All line managers should be sent a reminder email by the People Team that medical notes should be provided for absences of seven days or more, covering the entire period and attached to I-Trent. The People Team should review a sample of these absences to ensure the procedure is followed and in cases on non-compliance it should be raised to line managers * The Management Guidance- Attendance Management document should be sent to all line manager by the Head of People highlighting responsibilities, particularly surrounding entering absence information on iTrent * As part of the procurement exercise the People team should establish working groups or consultation sessions with line managers to obtain their perspectives on essential desired functionality within the new HR system to support more effective sickness absence management |
| Treasury Management | 0 | 0 | 2 | Substantial | Substantial | Conclusion  The controls and policies in place to support Treasury Management are adequate despite some exceptions. The risk register was not up to date with key risks omitted and a £7.46m investment was recorded for the incorrect counterparty on the loans list.  Findings/Recommendations:   * The updated version of the Risk Register should be reported to the Finance and Performance Panel at its next meeting, noting that the version reviewed at the December meeting was a previous version, to ensure the Panel has sufficient oversight of the key treasury risks * The wording of the section confirming that there has not been a breach of counterparty limits on the Stage 2 checklist should be amended to include a check that the MMF transaction or investment has been added to the correct fund on the Loans List |
| Contract Management & Procurement | 0 | 2 | 1 | Moderate | Moderate | Conclusion  Overall, whilst the Council have adequate controls in place for managing relationships with clients, contracts do not have established KPIs which is a requirement for all contracts within the Council  The Council’s Constitution was updated and approved by Cabinet in March 2023 which outlines the procurement process. However, it does not provide clarity on the duration procurement documents should be retained for live contracts obtained through In-Tend  Findings/Recommendations:   * To review the top four high value Contracts the Council hold and identify the key procurement documents which should be retained and work with Suppliers to obtain these * To To review and update the Constitution to specify the duration procurement documentation should be retained for live contracts obtained on the In-Tend System * To identify key live contracts without KPIs and for the relevant Contract Managers to work with suppliers to establish KPIs and ensure upon renewal these are added to the contract * To develop a list of standard KPIs that Contract Managers can use as a template to re-enforce the important of KPIs. |

SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

In 2022-23 there were a total of 34 recommendations issued; five high, 16 medium and 13 low recommendations. In comparison in 2021-22 there were 40 recommendations issued; five high, 26 medium and nine low. Whilst the number of medium recommendations have reduced the number of high recommendations issued have not changed in comparison to last year. Indicating the council’s control systems remain unchanged.

In 2022-23 there were four substantial, three moderate and two limited control design opinions (Income Generation and IT Audit). In comparison to 2021-22 there were two substantial and six moderate control design opinions issued. The Council continue to point us to high-risk areas eg Income Generation, Change Programme and IT Audit.

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| **Recommendations**  2020-21 | 2021-22 | | 2022-23 | |
| **Control Design** |  | |  | |
| **Operational Effectiveness** | |  | |
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In 2022-23 there was two substantial, five moderate and two limited opinions on effectiveness (Income Generation and IT Audit) issued. In comparison to 2021-22 there was one substantial, six moderate and one limited on effectiveness opinions issued.

While the Council continues to apply policy this has slightly declined from last year.

ADDED VALUE

KEY THEMES

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 2022 to 31 March 2023 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 2022/23 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. There were some delays to provide deliverables to support audit reviews which resulted in delays in issuing draft reports this included IT Audit and Contract Management & Procurement.

**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.

There has been some progress made on recommendations and those followed up during the year have broadly been engaged with well. However, little progression has been made in fully implementing the recommendations for the Environment audit review which was a review undertaken in 2021-22. All 2022/23 recommendations are due to be reviewed as part of the follow up process. Completion of recommendations is broadly good with limited concerns at this stage.

**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 2022/23. 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 2022/23
* 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

KEY PERFORMANCE INDICATORS

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| iNTERNAL aUDIT Quality Assurance | nOTES | RAG Rating |
| Annual Audit Plan delivered in line with timetable and actual days are in accordance with Annual Audit Plan | The internal audit work completed to date has been in line with the agreed timetable and days. |  |
| Customer satisfaction reports – overall score at average at least 3.5/5 for surveys issued at the end of each audit and annual survey to Audit Committee to achieve a score of at least 70% | Customer Satisfaction Reports - Our overall score at average was 4 for surveys issued at the end of each audit. |  |
| External audit can rely on the work undertaken by internal audit (where planned) | External Audit are aware of the control environment for the Council as part of the Audit Committee meetings |  |
| At least 60% input from qualified staff | The internal audit work completed to date has been completed by qualified staff. |  |
| Issuance of draft report within 3 weeks of fieldwork ‘closing’ meeting and finalise internal audit report 1 week after management responses to the report are received. | We have issued draft reports within 3 weeks of fieldwork ‘closing’ meeting and finalised internal audit reports within 1 week after receiving management responses. |  |
| 90% recommendations to be accepted by management and information is presented in the format requested by the customer. | All our recommendations made were accepted by management and we worked with the Auditees to present information in the format requested. |  |
| Positive result from any external review. | This indicator will be updated when an external review has been completed. |  |

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| mANAGEMENT kpiS | NOTES | RAG Rating |
| Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt | Generally, the Council have been responsive and responded to draft terms of references within one week of receipt. Where assurance levels have been limited draft reports have taken longer to finalise in some instances. |  |
| Audit sponsor to implement all audit recommendations within the agreed timeframe. | The overall responsiveness in implementing audit recommendations has fallen slightly in comparison with last year. In 2023-24 we will be working with the Operational Delivery Group to improve the overall implementation of recommendations. |  |

# Appendix I

**Opinion significance definition**

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| --- | --- | --- | --- | --- |
| 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. |

**RECOMMENDATION significance definition**

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| **Recommendation Significance** | |
| **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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