

INTERNAL AUDIT PROGRESS REPORT

Oxford City Council

July 2023

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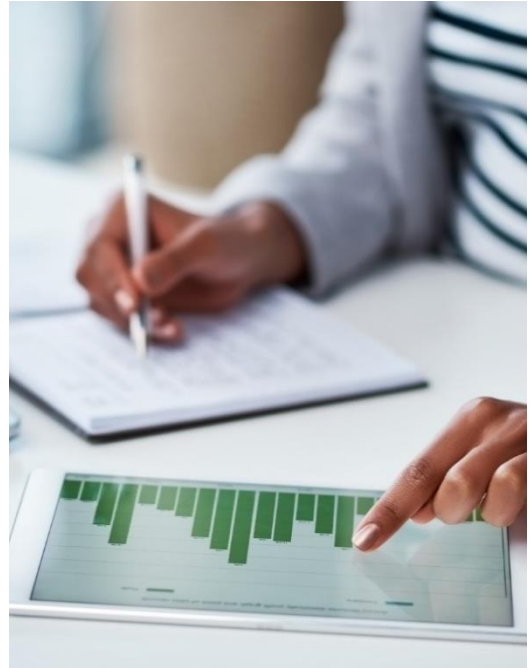
SUMMARY OF JULY 2023 WORK

INTERNAL AUDIT

This report is intended to inform the Audit Committee of progress made against the 2022/2023 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.



JULY 2023 INTERNAL AUDIT PLAN

All 2022/23 audits have been completed, it was agreed with Audit Committee, the two remaining audits Contract Management & Procurement and Planned Maintenance & Refurbishment would form part of the 2023/24 programme. Contract Management & Procurement will be presented at this meeting and Planned Maintenance and Refurbishment will be presented at the September 2023 Audit Committee.

We are making good progress in the delivery of the July 2023-24 audit plan, and we are pleased to present the following reports to this Audit Committee meeting:

- ▶ Contract Management & Procurement
- ▶ Follow-up Report
- ▶ Internal Audit Annual Report and Annual Statement of Assurance 2022-23.

Fieldwork is underway in respect of the following audits which we anticipate will be presented at the next Audit Committee meeting:

- ▶ Planned Maintenance and Refurbishment
- ▶ Planning Services
- ▶ Empty Properties and Dwellings.

REVIEW OF 2023-24 WORK

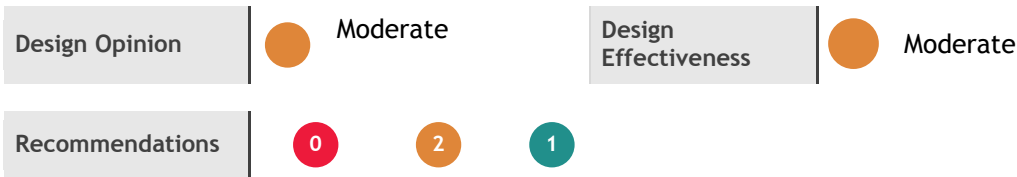
AUDIT	EXEC LEAD	AUDIT COMMITTEE	PLANNING	FIELD WORK	REPORTING	DESIGN	EFFECTIVENESS
Audit 1: Private Rented Sector	Nigel Kennedy	Sept 23	✓				
Audit 2: Planning Services	David Butler	Sept 23	✓	✓	✓		
Audit 3: Building Control	David Butler	Jan 24	✓				
Audit 4: Selective Licensing	Ian Wright	Apr 24	✓				
Audit 5: Health and Safety and Fire Safety	Jane Winfield/Nerys Parry	Jan 24	✓				
Audit 6: Data Analytics	Nigel Kennedy	Apr 24	✓	✓	✓		
Audit 8: Empty Properties and Dwellings	Nerys Parry	Sept 23	✓	✓	✓		
Audit 9: Town Hall and Community Centre Lettings	Ian Brooke	Jan 24	✓				
Audit 10: Accounts Receivables	Nigel Kennedy	Jan 24	✓				
Audit 11: QL Optimisation	Nigel Kennedy	Apr 24	✓				
Audit 12: Planned Maintenance and Refurbishment	Nerys Parry	Sept 23	✓	✓	✓		




CONTRACT MANAGEMENT AND PROCUREMENT

CRR REFERENCE:

- ▶ Enable an Inclusive Economy
- ▶ Deliver More Affordable Housing and Tackling Homelessness
- ▶ Support Thriving Communities
- ▶ Pursue a Zero Carbon Oxford





SCOPE

BACKGROUND

PROCUREMENT

- ▶ The Public Contract Regulations (2015) and subsequent supporting legislation outline public sector procurement requirement. Oxford City Council (the Council) undertake transparent procurement processes to obtain value for money when purchasing goods and services. All Council contracts over £25,000 must be published on Contracts Finder or, Find a Tender if the Find a Tender limits are exceeded
- ▶ The Council’s Procurement Manager manages the procurement function, and the Procurement Team approves all new contracts on Agresso (the Councils Finance system). Service areas manage procurement exercises below the Find a Tender thresholds however, support and advice is available from the Procurement Team. Any contracts exceeding the Find a Tender thresholds are undertaken by the Procurement Team
- ▶ The Council have recently implemented the In-Tend procurement portal which went live on 1 November 2022. It provides a clear breakdown to suppliers on procurements for the Council and Oxford Direct Services (ODS). Online tenders and contract management can also be managed through In-Tend. ODS manage their own procurement and contract management service but can buy-in support from the Council. This report is focused on the arrangements at the Council and does not provide a view of the arrangements at ODS.
- ▶ Due diligence is completed on all suppliers where the contract value is over £25,000 through an Experian credit report. A tiered acceptance framework is in place for these, so suppliers scoring more than 81 on their credit report are accepted. If the score falls below 51, approval must be obtained from the Management Accountants team to accept the credit risk before the contract can be set up on Agresso.

CONTRACT MANAGEMENT

- ▶ Service area managers and Contract Managers are responsible for managing contracts and relationships with suppliers. However, invoices raised above the overall contract value, established at the procurement stage, require a procurement exemption form to be approved by the Procurement Team
- ▶ The Council’s Procurement Strategy was refreshed in October 2022. There are sections on contract management, including guidance on how to set and monitor key performance indicators (KPIs) for contractors. Previously, a contract handover document (containing prescribed templates) were provided to Contract Managers to advise on how to conduct contract management meetings. Due to the introduction of In-Tend, Contract Managers will be able to decide whether to use In-Tend or continue using the prescribed templates in the contract handover document
- ▶ We undertook a Contract Management review in 2019/20 where we provided moderate assurance on both control design and effectiveness. A high finding was raised around KPIs not being set with suppliers and regular contract management meetings not taking place for some contracts.

AREAS REVIEWED

PROCUREMENT

- ▶ We reviewed the Council's Constitution and the Procurement Strategy to confirm these have been reviewed and updated
- ▶ We tested a sample of four contracts to confirm procurement exercises occur in line with the Constitution and statutory thresholds
- ▶ Through our sample testing we tested to see if documents relating to the procurement exercises were retained
- ▶ We confirmed for each supplier that due diligence checks were conducted and evidence of this was retained

CONTRACT MANAGEMENT

- ▶ We tested a sample of seven contracts to confirm there is effective monitoring and managing of contracts with established KPIs
- ▶ We confirmed if regular supplier meetings occurred and performance was discussed accordingly
- ▶ We confirmed if training was provided to Contract Managers on the new In-Tend platform.

**AREAS OF STRENGTH****PROCUREMENT**

- ▶ The Council's Constitution contains a chapter on Contract Rules which outlines the required procurement exercises for each contract threshold in a robust level of detail. The Constitution was last reviewed by the Council in March 2023 and is up to date
- ▶ The Procurement Strategy 2022-2025 outlines the Corporate procurement plan which was reviewed by the Scrutiny Committee and Cabinet in November 2022
- ▶ Our sample testing of four contracts with a combined value of £679,134 identified all procurement documents were retained on the In-Tend System and due diligence checks were undertaken on each supplier via Experian credit reports ahead of finalising the contract. In all instances, procurement was conducted in line with the Council's Constitution.


CONTRACT MANAGEMENT

- ▶ Contract Managers are responsible for establishing supplier relationships and managing the performance of contracts. Sample testing of seven contracts identified Contract Managers have regular meetings with suppliers to discuss performance and escalate issues
- ▶ The Procurement Team conduct regular training sessions for new starters and current employees which contain a robust level of detail on the procurement process and the use of the In-Tend system. Feedback is obtained from attendees in the form of a questionnaire, which the Procurement Team reflect on to improve the training session.












**AREAS OF CONCERN**

	Finding	Summary of Recommendations	Owner	Due Date
	<p>We tested a sample of four high value contracts from the Council to confirm procurement documentation was retained on Proactis and identified the Procurement Team were unable to locate/provide evidence. The Constitution does not provide clarity on the duration procurement documentation should be retained for live contracts (Finding one - Medium)</p>	<p>a. 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</p> <p>b. To review and update the Constitution to specify the duration procurement documentation should be retained for live contracts obtained on the In-Tend System.</p> <p>Management Response <i>Within the Constitution it does state how long the Contract should be retained for (High value i.e. over FTS) however this can be made more robust in include tender documents. The constitution is updated on a yearly basis and will be picked up in the next edition in 2024.</i></p> <p><i>The team will review all documentation that it holds for the top four high value contracts and will aim to complete this particular aspect by November 2023.</i></p>	<p>Annette Osbourne, Procurement Management</p>	<p>May 2024</p>
	<p>Our sample testing of seven contracts identified in five instances, clear KPIs were not established to monitor performance (Finding two - Medium)</p>	<p>a. 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</p> <p>b. To develop a list of standard KPIs that Contract Managers can use as a template to re-enforce the important of KPIs</p> <p>c. Contract Managers should be informed that KPIs are not optional via department managers restating the message and sharing the contract handover form (see Finding 3)</p> <p>Management Response <i>KPI's</i> <i>A standard list of KPI's and Service Levels has already been established (Strategy 2022) and is available on the intranet for all contract managers</i></p> <p><i>This will be re-enforced with Contract managers and Service Heads for all new contracts that are awarded.</i></p>	<p>Annette Osbourne, Procurement Management</p>	<p>Sept 2023</p>
	<p>The Procurement Team developed a contract management handover guidance document to</p>	<p>a. Share the Contract Management Handover Form with all Contract Managers via email or the Council's</p>	<p>Annette Osbourne, Procurement Management</p>	<p>Sept 2023</p>

	<p>assist Contract Managers in monitoring the performance of contracts. Discussions with Contract Managers revealed this document has not been shared recently and managers do not utilise the guidance templates provided for minutes, risk registers and action logs (Finding three - Low).</p>	<p>intranet</p> <p>b. Include the form as an attachment on the procurement training slides.</p> <p><i>Management Response</i></p> <p><i>The Contract Management Handover form is available via the Intranet under Procurement Documents.</i></p> <p><i>This will be further included in the Procurement training slides and procurement will build into the training how the form should be used before award (building in KPI's) and managing performance post award.</i></p>		
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 CONCLUSION	<ul style="list-style-type: none"> ▶ 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 ▶ This leads us to conclude a moderate opinion on the control design and control effectiveness.
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KEY PERFORMANCE INDICATORS

QUALITY ASSURANCE	KPI	RAG RATING
HIGH QUALITY DOCUMENTS PRODUCED BY THE AUDITOR THAT ARE CLEAR AND CONCISE AND CONTAIN ALL THE INFORMATION REQUESTED.	WE HAVE HAD FIVE SURVEY RESPONSE IN 2022/23 WHERE THE RESPONDENT 'AGREED' OR 'STRONGLY AGREED' THAT THE FINAL REPORT WAS CLEAR AND CONCISE.	
Frequent communication to the customer on the latest mandatory audit standards and professional standards prescribed by the main accountancy bodies.	Sector updates were provided within the Audit Committee progress report and/or in appending reports.	
The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings so far have been attended, including Audit Committee meetings, pre-Audit Committee, scoping meetings and meetings during audit fieldwork.	
Information is presented in the format requested by the customer.	No requests to change the BDO format.	
Customer satisfaction reports - overall score at average at least 3.5 / 5 for surveys issued at the end of each audit.	We have received five survey responses for 2022/23 where we had an average score 4 for audit satisfaction. We will continue to issue surveys for each audit as it is finalised.	
External audit can rely on the work undertaken by internal audit (where planned)	To be clarified at year end once we have met with the new external auditors	
Positive result from any external review	In June 2021 an External Quality Assessment by the Institute of Internal Auditors reported that BDO LLP's Public Sector Internal Audit Team 'generally conforms' with the International Professional Practices Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS). This is the highest of the three ratings categories.	
REPORTING ARRANGEMENTS	KPI	RAG RATING
DRAFT REPORT TO BE PRODUCED 3 WEEKS AFTER THE END OF THE FIELDWORK	DRAFT REPORTS HAVE BEEN PRODUCED WITHIN 3 WEEKS IN THE YEAR TO DATE.	
Management to respond to internal audit reports within 2 weeks	We have received management responses within 2 weeks for all audit reports so far in 2022/23, with exception to the Income Generation report which required cross-departmental responses, therefore, we set up a meeting with all stakeholders to obtain an agreed response.	
Final report to be produced 1 week after management responses	The final reports issued were released within one week of receipt of management comments for all reviews so far in 2022/23.	
90% recommendations to be accepted by management	All recommendations have been agreed with management prior to release of the final audit report and have been accepted in full.	

DELIVERY	KPI	RAG RATING
<p>ANNUAL AUDIT PLAN DELIVERED IN LINE WITH TIMETABLE AND ACTUAL DAYS ARE IN ACCORDANCE WITH ANNUAL AUDIT PLAN</p>	<p>PROGRESS AGAINST THE AUDIT PLAN IS REPORTED AT EVERY AUDIT COMMITTEE, AGAINST ORIGINAL PLANNED DATES. ALL AUDITS HAVE BEEN COMPLETED IN LINE WITH THE ACTUAL DAYS AGREED, WITH SOME DATES MOVED BACK AT THE REQUEST OF THE COUNCIL.</p>	<p>G</p>
<p>At least 60% input from qualified staff</p>	<p>Audits undertaken in 2022/23 have been undertaken by qualified staff.</p>	<p>G</p>

LOCAL GOVERNMENT SECTOR UPDATE

Our monthly public sector briefing summarises recent publication 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, non-executive directors and governors.

KENT WARNED OF POTENTIAL S114 NOTICE IF IT FAILS TO MAKE SAVINGS

Grant Thornton issued a key recommendation in an [annual report](#) that the authority should adopt spending controls, and in some cases cut services, particularly because of increasing demand for adult and children's care services.

Paul Dossett, head of local government at the firm, told a county council meeting the authority's financial position is due to "traditional challenges" of service demand outstripping the level of resources.

Speaking to members, he said overspends in 2022-23 created a "significant drain" on reserves and have left the council with difficult decisions to make in order to meet the £86m savings target this year.

"The council needs to take these decisions, because if you don't deliver the savings and make difficult decisions for the 2024-25 budget, the council will be moved towards a perilous financial position," Dossett said.

"It may move towards the section 151 officer considering whether or not she needs to issue a section 114 report, which is quite a nuclear option in terms of that impact on spending and other decision making.

<https://www.publicfinance.co.uk/news/2023/07/kent-warned-potential-s114-notice-if-it-fails-make-savings>

FOR INFORMATION

For the Audit Committee Members and Executive Directors

COUNTIES CALL FOR TRANSFERRAL OF LOCAL ENTERPRISE PARTNERSHIP POWERS



COUNTIES CALL FOR TRANSFERRAL OF LOCAL ENTERPRISE PARTNERSHIP POWERS

The government in February said it was ‘minded’ to allow local authorities to carry out the functions currently performed by Local Enterprise Partnerships - and the County Councils Network urged ministers to follow this through completely.

These functions include delivering capital investment schemes, helping businesses start and expand through ‘growth hubs’, using retained business rates, paying grants and deciding where enterprise zones should be set up.

Since their establishment in 2011, LEPs have delivered £1.97 for every pound spent in county areas, a report commissioned by the CCN found.

The report, conducted by consultancy firm EY, found that while CCN areas have received the best return on funding, the return is still lower than the £4.81 of benefits per pound forecast by the government.

Researchers said the 11 LEP areas in urban and city regions recovered from pandemic slowdowns in 2022, and gross value added is expected to have grown by 6.7% between 2019 and 2025.

However, growth in the 27 LEP areas in county and rural regions will have been far slower at just 3% over the same period, and will only recover lost pandemic output in 2024.

Tim Oliver, chair of the CCN, said: “For too long, councils in county areas have been hamstrung in their ability to drive economic growth, lacking the powers enjoyed by urban and city authorities with mayors.

<https://www.publicfinance.co.uk/news/2023/07/counties-call-transferral-local-enterprise-partnership-powers>

FOR INFORMATION

Audit Committee, Executive Directors, and Non-Executive Directors

INDEPENDENT COMMISSIONER APPOINTED AT THURROCK

A new commissioner at Thurrock Council will help run the authority as it tries to recover from its high debt and failing commercial investments.

Levelling up minister Lee Rowley confirmed that David Smith, former chief executive of South Yorkshire Mayoral Combined Authority, has been appointed as a managing director commissioner.

Smith will fulfil the role of a chief executive for the authority, and will be responsible for its day-to-day operations until the council appoints a replacement, joining Essex County Council on the commissioning team.

Council leader Mark Coxshall said: “Dave brings with him great experience and expertise having held senior positions across a number of local authorities in England.

“I look forward to working hand in hand with him as we drive forward our recovery to ensure Thurrock Council has a future in which it is sustainable and is the best it can be.”

Commissioners, the first of whom were appointed in September, will also have new powers over the scrutiny of council decisions; how services are designed and run; hiring and firing senior officers; overseeing an audit of the authority’s governance; and the development of a senior management performance framework.

“Having carefully considered the best value inspection report, and the representations I have received about the intervention, I am satisfied that Thurrock Council is continuing to fail to comply with its best value duty,” Rowley said.

Details of the authority’s financial woes became clearer in November, when a £452m funding gap emerged in this year’s budget due to the **impairment of four assets** and a significant increase to MRP to comply with local government guidelines.

<https://www.publicfinance.co.uk/news/2023/03/independent-commissioner-appointed-thurrock>

FOR INFORMATION

Audit Committee, Executive Directors, and Non-Executive Directors

SOUTHAMPTON CALLS IN CIPFA TO STAVE OFF 114 NOTICE

Commissioners sent into the authority in December 2021 said in their second report that progress has been “very slow”, A city council has warned its finances are not sustainable and called in support.

Southampton City Council confirmed it has sought help from CIPFA because it is having difficulty making budget savings.

A bleak review by CIPFA confirmed that the authority will have to issue a section 114 notice later this year unless it is able to significantly reduce spending.

Its report, commissioned by the council, explained that the overspend run rate is averaging £1.8m per month.

The authority delivered just 39% of its planning savings in 2022-23. CIPFA has warned that if this is repeated this year it would add £12m of additional pressures.

“If this trend continues in the current financial year combined with non-delivery of savings there will be a significant budget gap at year end,” the report warned.

Until now, the budget has been met by spending reserves to offset overspends. It now has just £10.1m in its medium-term financial strategy reserves, the **CIPFA resilience and financial management review** said.

The report, published ahead of a cabinet meeting, said that while the authority set a balanced budget this year, this is dependent on delivering £20m of savings.





<https://www.publicfinance.co.uk/news/2023/07/southampton-calls-cipfa-stave-114-notice>

FOR INFORMATION

Audit Committee, Executive Directors, and Non-Executive Directors

APPENDIX I

OPINION SIGNIFICANCE DEFINITION

LEVEL OF ASSURANCE	DESIGN OPINION	FINDINGS REVIEW FROM	EFFECTIVENESS OPINION	FINDINGS REVIEW FROM
 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

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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