CHELTENHAM
BOROUGH COUNCIL

Notice of a meeting of
Audit Committee

Wednesday, 20 June 2012
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Paul Massey (Chair), Andrew Wall (Vice-Chair), Colin Hay, Rowena Hay, David Prince, Tim Harman and Pat Thornton

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.		**APOLOGIES** Councillor Wall	
2.		**DECLARATIONS OF INTEREST**	
3.		**MINUTES OF THE LAST MEETING** 21 March 2012	(Pages 1 - 6)
4.		**PUBLIC QUESTIONS** These must be received no later than 12 noon on the fourth working day before the date of the meeting.	
5.		**GO SHARED SERVICES UPDATE** Report of the Head of GO Shared Services , Jenny Poole	(Pages 7 - 12)
6.		**INTERNAL AUDIT MONITORING REPORT** Report of the Audit Partnership Manager, Rob Milford	(Pages 13 - 24)
7.		**ANNUAL INTERNAL AUDIT OPINION FOR 2011/12** Report of the Audit Partnership Manager, Rob Milford	(Pages 25 - 38)
8.		**ANNUAL GOVERNANCE STATEMENT** Report of the Corporate governance, risk and compliance Officer, Bryan Parsons	(Pages 39 - 56)
9.		**INTERIM AUDIT REPORT** Report of KPMG	(Pages 57 - 70)
10.		**WORK PROGRAMME**	(Pages 71 - 74)

11.		**ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**	
12.		**DATE OF NEXT MEETING** 19 September 2012	
		BRIEFING NOTES (for information only) 1. Corporate Governance Group – update	

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Audit Committee

Wednesday, 21st March, 2012
6.00 - 7.30 pm

Attendees	
Councillors:	Bernard Fisher, Rowena Hay, Paul Massey (Vice-Chair) and Pat Thornton (substitute for Councillor Wheeldon)
Also in attendance:	Councillor Colin Hay (Cabinet Member Corporate Services), Rob Milford (Audit Partnership Manager), Bryan Parsons (Corporate Governance, Risk and Compliance Officer) and Ian Pennington (KPMG Auditor)

Minutes

1. **APOLOGIES**
   Councillors Wheeldon, Wall and MacDonald had given their apologies.
   Councillor Thornton substituted for Councillor Wheeldon.

   As Vice-Chair, Councillor Massey took the Chair in the absence of Councillor Wall.

   The Director of Resources had also given his apologies.

2. **DECLARATIONS OF INTEREST**
   No interests were declared.

3. **MINUTES OF THE LAST MEETINGS**
   The meeting scheduled for the 11 January 2012 was adjourned by virtue of it not having quorum present. As such, two sets of minutes were being considered, those of the meeting held on the 21 September 2011 and the adjourned meeting on the 11 January 2012.

   Upon a vote it was unanimously

   RESOLVED that the minutes of the meeting held on the 21 September 2011 and the adjourned meeting of the 21 January 2012 be agreed and signed as an accurate record.

4. **PUBLIC QUESTIONS**
   No public questions had been received.

5. **ANNUAL AUDIT LETTER 2010-11**
   The KPMG Auditor introduced the audit letter 2010-11 which summarised the key findings of KPMG's 2010-11 Audit of Cheltenham Borough Council which had been previously reported. Members may consider that the presentation of the audit letter at this point was neither, timely or relevant, but he explained that there was a requirement for this to be formally presented to the Audit

Committee. He reiterated comments made when the 2010-11 Audit had been reported in September 2011 that officers had produced a well presented set of accounts and that it had been a model audit.

Members noted the audit letter 2010-11 and the Chair acknowledged the comments by KPMG about the standard of the papers produced by the council and felt that thanks on behalf of the committee should be passed to the officers involved in the collation of these papers.

6. **FINANCIAL STATEMENTS AUDIT PLAN 2011-12**
The KPMG Auditor introduced the plan which described how KPMG would deliver their audit of 2011-12 financial statements, which had presented in a similar format to previous years.

Section two set out key risks and areas of focus for KPMG. This included saving plans, which given the pressures to deliver public sector cuts could increase the risk management bias on the financial statements, though this was contrary to his experiences at this council. He stressed that any liabilities arising from the saving plans at the end of the year would need to be accounted for in the 2011-12 financial statements. Changes to the 2011-12 Code included the requirement to carry 'heritage assets' and their value, whether this be historical buildings, civic regalia or works of art. The GO Project posed two concerns; the first, that costs for this project were captured and reported appropriately in the accounts. The second, was an anxiety that as resources became further stretched with staff taking on additional roles in the lead up to GO Live date would have an adverse impact on the standards of accounting. This would be monitored closely. The KPMG Auditor touched on other sections of the report, explaining that the fee was lower than last year and the reduction was a result of the VFM work being less.

The KPMG Auditor offered the following responses to questions from Members of the Committee;

- KPMG had taken note of the findings of Internal Audit with regard to Waste Management income management and stock control which were found to be unsatisfactory. There were two aspects of KPMG audit, that information within the accounts are recorded properly and demonstrated VFM.
- KPMG did not assess the impact of budget decisions, but solely the decision itself. It was for Internal Audit to consider the impact of the decision, but KPMG would consider Internal Audit plans and reports.
- Earmarked reserves demonstrated transparency and from a resilience perspective KPMG would look at them to ensure that they made sense. They would also look at the remaining General Fund to ensure that there was adequate provision for the unexpected and that it was not potentially too low.

7. **CERTIFICATION OF GRANTS AND RETURNS 2010-11**
The KPMG auditor introduced the report which despite being short, required a surprising amount of work. The report was necessitated by the stipulation of the government departments who had provided the monies that councils provide data which is to be checked by Auditors.

Of the six grants and returns, five were issued with unqualified certificates by KPMG and one with a qualified certificate which was the result of an incorrect entry in one of the cells on the Housing Subsidy Base Data Return.

8. **REVIEW RISK MANAGEMENT POLICY**
    The Corporate Governance, Risk and Compliance officer (CGR&CO) introduced the risk management policy which was owned by the Audit Committee and was reviewed on an annual basis. This years review incorporated a number of changes which included;

    Confidential risks for which there had previously been no provision, would be included in the register but given that it was a public document which was circulated widely across the council, these risks would be recorded but redacted as necessary to ensure compliance with data protection requirements and in order to preserve confidentiality.

    The risk scorecard had been shortened to make it more succinct than previously in an effort to make it clearer for officers. The introduction of a new risk management module would calculate residual risk and this necessitated a wider range of scoring from 1 to 5 to allow for reasonable differential between actual risk and residual risk. He suggested that a score of 5 would be very rare, or at least should be.

    The Chair welcomed the changes to the definition of risk, which, further to previous comments by this committee, was inline with the internationally recognised definition (ISO3100 and IEC). Other comments made by the chair included the description of positive risk (1.6) which he felt should include reference to the fact that positive risks in one area may pose negative risks to other objectives. The scale of impact as set out in 6.2, needed to be amended and 'low' listed below 'negligible'. The reference to the economy and business improvement overview and scrutiny committee at 10.8 should be removed given that this committee would soon cease to exist. The table at 15 showed two categories both titled green and though different shades in colour, perhaps the scale of colours should be amended to red, orange, yellow and green.

    The CGR&CO confirmed that risks scoring between 16-24 were still the responsibility of the risk owner but collectively managed by the senior leadership team.

    RESOLVED that

    1. **The revised Risk Management Policy including a process for managing and reporting confidential risks be agreed.**

    2. **The introduction of the revised risk scorecard that coincides with the new risk management module be agreed.**

9. **REVISED CODE OF CORPORATE GOVERNANCE**
    The corporate governance, risk and compliance officer (CGR&CO) introduced the revised code of corporate governance which members were asked to consider, suggest any further issues for consideration by officers and recommend to council for approval. This year, the annual review had been

undertaken alongside the constitution review and a resulting amendment had been the deletion of appendices relating to policies in order that they could be included as separate appendices of the constitution. Given the councils adoption of a commissioning approach to the delivery of its services which had and would continue to result in different ways of working, a commissioning protocol was developed. This protocol set the principles by which the approach to commissioning was to be governed.

Members queried whether the document should include specific references to the committee structures in place at the council (i.e. audit committee and overview & scrutiny committee) and their roles and functions, which formed part of how compliance would be achieved. The CGR&CO explained that the roles and responsibilities of all committees were defined in the constitution and as the Code of Corporate Governance was a very high level document he suggested that rather than detail the roles of various committees he could instead include the name of the relevant committee and note that full details of roles and responsibilities were included in the constitution, referring to the appropriate appendix once the constitution review was complete.

RESOLVED that having considered the revised Code and suggested changes as appropriate, the Code be recommended to Council for approval.

10. **INTERNAL AUDIT MONITORING REPORT**
Before introducing the item the Audit Partnership Manager confirmed that appendix 1 of this item had been attached to agenda item 11 in error and vice versa. Members confirmed that this had already been highlighted to them.

The internal audit report was designed to provide ongoing assurances to the Audit Committee throughout the year, in addition to the annual internal audit opinion which was presented annually and provided an overall assurance opinion. It also provided members with a summary of the work being undertaken by the partnership, which included work set out in 3.4 of the covering report. Members were referred to the internal audit monitoring report itself, appendix 1, which detailed executive summaries of the reviews undertaken and the Audit Partnership Manager talked through some specific highlights of the report, including progress since the recommendations had been made.

The Audit Partnership Manager provided the following responses to member questions;

- In relation to the comments regarding Waste Management income management, Managers had responded immediately to the recommendations. He was aware that this would need to be monitored once UBICO had gone live, to ensure that the recommendations were being taken forward. Given the nature of this audit opinion, the Committee asked for an update via a briefing note, either at the next meeting or by email, as soon as the issue was resolved.
- There was no evidence that any declarations of hospitality weren't being recorded but this was not always in a timely fashion. The Corporate Governance Group had asked for guidance from Legal and a new module would be added to the Learning Gateway for Officers to add

Draft minutes to be approved at the next meeting on Wednesday, 20 June 2012.

their declarations of hospitality, though he was not sure that this would also be available to Members.

11. ANNUAL INTERNAL AUDIT PLAN

The Audit Partnership Manager introduced the Annual Internal Audit Plan, which outlined a programme of work for internal audit during 2012-13. The work of internal audit had two elements, core governance and financial management and risk based.

He highlighted that audit of the core financial systems delivered to the Council by GO shared services would be covered within the GO shared services audit plan in order to avoid repetition and duplication. The risk based audit plan was flexible and was reviewed on a quarterly basis by SLT and resources were focussed where necessary at appropriate times.

In addition to the plan at appendix 1 he advised that;

- AGS was an acronym for the Annual Governance Statement.
- In March 2012 the 'Non – Ubico Services' audit would consider the control and management of residual services which would not transfer to UBICO.
- In relation to commissioning he would comment as needed but would not necessarily compile a report.

The Audit Partnership Manager and the Cabinet Member Corporate Services where necessary, offered the following responses to Members questions;

- In relation to UBICO the Audit Partnership were acting for the council, but the Audit Partnership was acting as an auditor for UBICO separately under a Service Level Agreement. The Executive Board for UBICO were currently evolving an Audit Committee, the suggestion being that this committee would receive reports from the auditors on a regular basis.
- The Leader of the Council is the shareholder representative and the Cabinet Member Corporate Services as an observer only, but this was not the case on the Ubico Board which did not have an observer. All governance arrangements, including those with CBH, Cheltenham Festivals, UBICO, etc, were being reviewed.
- The issue of different districts being involved in different setups (GO, One Legal, etc) had been considered by the relevant Project Boards and an appropriate audit plan for each was being developed. Discussions were ongoing about who would receive what information in order to avoid a conflict of interest and protect confidential information. The Audit Partnership Manager was happy to organise a session for Members if this would be considered useful.
- The two biggest issues and greatest undertakings within the plan would be the workforce capacity management and commissioning audits. The plan gave the impression that each audit would take a month but some would be shorter and some longer.

- The AG&M project audit related to a review of the delivery of the project rather than consideration of the business plan. He suggested that it would be for O&S to consider whether the AG&M business plan was robust and that he could see no reason why this matter could not be referred to the O&S Committee by the Audit Committee at the appropriate time.

RESOLVED that the Internal Audit Plan 2012-13 be approved.

12. **WORK PROGRAMME**
The Chair referred members to the work plan as circulated with the agenda. No items were raised for inclusion but it was noted that the Chairs briefing for the next meeting in June, was currently scheduled for the 17 May, only 3 days after Annual and Selection Council. It was suggested that this should be deferred by a week to allow the new Chair to prepare, if applicable.

Officers highlighted the training session which had been scheduled for 5pm before the Committee meeting on the 20 June which could be of interest and use to Members and substitutes from a number of Committees and Working Groups. The Cabinet Member Corporate Services noted the suggestion by the Constitution Review Working Group for open substitution and the issues this would pose to Committees where statutory training was required.

13. **ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**
There were no urgent items for discussion.

14. **DATE OF NEXT MEETING**
The next meeting was scheduled for the 20 June 2012 and subsequent dates were yet to be agreed by Council.

Paul Massey
Chairman

Cheltenham Borough Council
Audit Committee – 20 June 2012
GO Shared Services update

Accountable Member	Councillor Jon Walklett Portfolio Holder for Corporate Services
Accountable Officer	Mrs Jenny Poole Head of GO Shared Services 01285 623313 Jenny.Poole@cotswold.gov.uk

Purpose of Report	To keep the Audit Committee updated with the developments in the GO Shared Services.
Recommendation(s)	**That the Audit Committee receives the report and discusses issues relating to GO Shared Services;**
Reason(s) for Recommendation(s)	The Audit Committee is to be kept regularly updated on progress on development of GO Shared Services.

Ward(s) Affected	None
Key Decision	No
Recommendation to Council	No

Financial Implications	The GO Programme aims to save the Council approximately £269,000 per annum through the sharing of Finance, Human Resources, Payroll and Procurement services.
Legal and Human Rights Implications	The Support and Hosting of the Enterprise Resource Planning (ERP) ICT application is being carried out by Cheltenham Borough Council on behalf of all four authorities. This responsibility has been delegated by use of a section 101 agreement under the Local Government Act 1972. Responsibility for HR, Payroll, Finance and Procurement functions on behalf of West Oxfordshire District Council, Cheltenham

	Borough Council and Forest of Dean District Council are delegated to Cotswold District Council using section 101 powers
	There will be legal and Human Resource implications of establishing the shared service. These issues are being addressed by the GO Shared Services management team. Further reports will be brought back to this Committee and the Joint Monitoring and Liaison Group as appropriate.
Environmental and Sustainability Implications	The ICT equipment used to host the ERP system is sited in the server room at the Municipal Offices. Energy use in the server room is being monitored and it suggests that energy use has been increasing as the new servers have been introduced. This will have a detrimental impact on the council's energy costs and efforts to reduce the council's carbon emissions. This warrants further investigation to establish whether there is a case for apportioning the increased energy costs and carbon emissions across partner councils.
	There may be implications in the future when the remaining Shared Services are established resulting from staff commuting or travelling to meetings. These implications will be considered in future reports.
Human Resource Implications	There will be significant demand upon officer time both within the functions directly affected (Finance, Payroll, Human Resources and Procurement) as well as upon the wider organisation leading up to and following implementation at Cotswold District Council in August 2012. At the same time, the Cotswold HR team will also be supporting the restructuring of the Shared Service.
	The provision of services through a shared service arrangement, will lead to an overall reduction in the number of officers delivering services in these areas across the Councils. The GO Programme have agreed to manage this eventual reduction in numbers by active vacancy management. Vacant posts, which have arisen since 2009 and over the remainder of the implementation period, have been filled by temporary or agency staff or other such methods until the Shared Services have been fully established and final resourcing requirements ascertained.
	On 1st April 2012, staff working in Finance, HR, Payroll and Procurement services from the partner councils transferred under TUPE regulations to Cotswold District Council as the employing authority for the GO Shared Services.
Key Risks	The GO Shared Services management team maintains a risk register which is reviewed regularly and incorporates risks escalated from the individual project risk registers.
	The most significant risk relates to the resources required to implement the ERP system within tight timelines and competing demands for resources. The risk is being mitigated by having the GO ERP system as a top task within the Council's Corporate Plan and prioritising resource allocation to the Programme.
Equalities Impact Assessment	An equalities impact assessment has previously been considered by the JCC Committee. A further assessment will be prepared by the GO Shared Services management team in advance of

	implementation of the restructuring which is due to take place in the autumn.

Background Documents	None
Appendices	None

Performance Management Follow Up	Performance reports will be made to the GO Client Officer Group (CBC representative Mark Sheldon) and the Joint Monitoring and Liaison Group – JMLG (CBC represented by Pat Pratley and the Portfolio Holder for Corporate Services).
	Further reports will be brought to the JMLG, Cabinet and Council at appropriate points.

1.0 Introduction

1.1 In July, Cotswold District Council, West Oxfordshire District Council, Cheltenham Borough Council and the Forest of Dean District Council all approved an updated business case for sharing Finance, HR, Payroll and Procurement services to be facilitated by the implementation of an Enterprise Resource Planning (ERP) System. The Business Case indicated that savings of £673,000 per annum are possible by sharing services. For Cheltenham Borough Council, it is estimated that £269,000 of savings are available. The Councils also agreed that Cotswold District Council would become the employing authority for the GO Shared Services partnership from April 2012.

1.2 Now that the shared services are in operation, the GO Programme Board and the Strategic Partnership Management Board, which constituted the governance arrangements in place to manage the development of the ERP system and the development of the shared service, have been superseded by a Joint Monitoring and Liaison Group (JMLG) and a Client Officer Group.

1.3 It is planned that the JMLG will meet on a quarterly basis (or more frequently if required) and will be supported by a Client Officer Group (COG) which will make recommendations as required to the JMLG. Full details of the roles and responsibilities of both the JMLG and the COG are set out in the GO Collaboration Agreement.

1.4 The first meeting of the COG was held on 25th May 2012. The first meeting of the JMLG is being arranged for June 2012.

2. Projects Update

2.1 The GO Programme comprised of a number of projects as set out below:

- GOPA   Finance & Procurement CofE specification and creation process
- GOPB   HR & Payroll CofE specification and creation process
- GOPC   Support and Hosting CofE/Infrastructure implementation
- GOPD   Finance configuration and process design
- GOPE   HR configuration and process design
- GOPF   Payroll configuration and process design

- GOPG   Procurement configuration and process design
- GOPH-K   System implementation at each of the 4 partner authorities
- GOPL   System implementation at Cheltenham Borough Homes Ltd
- GOPM   Review of banking contracts and insurance services
- GOPN   Creation of Shared Service
- GOPO   System implementation at Ubico Ltd

2.2   Projects A and B were completed in the summer of 2011 when each partner council approved the revised business case (v6.0) and delegated responsibility for the operation of GO Shared Services to Cotswold District Council.

2.3   Project C is also essentially complete as the ICT infrastructure is in operation at five of the GO Client sites, with Cotswold due to complete implementation in August this year. The ICT Support and Hosting Centre of Excellence is now responsible for future support and development of the GO Shared Services ICT infrastructure and is also supporting the Shared Service to enable officers to work flexibly.

2.4   Projects D to G were completed prior to the implementation commencing at Forest of Dean District Council.

2.5   Projects H to K are well in progress with Forest of Dean District Council system implementation completed earlier this year (barring some remaining snagging issues) and implementations at Cheltenham Borough Council and West Oxfordshire District Council are also nearing completion. Implementation at Cotswold District Council remains on course for August 2012 implementation.

2.6   Project L – implementation at Cheltenham Borough Homes Ltd is also nearing completion.

2.7   Project M is in progress and will be completed during the first year of operation of GO Shared Services.

2.8   Progress on Project N – creation of the Shared Services is set out in section 4 of this report.

2.9   Project O – system implementation at Ubico Ltd is also in nearing completion.

3.   **Establishment of the Shared Service**

3.1   The TUPE transfers were successfully carried out and as of 1st April 2012 all the relevant employees transferred to Cotswold DC as the employing council. Welcome packs have been issued and induction sessions have been carried out. There have been regular consultation meetings regarding the TUPE process with the trade unions and employee representatives from the partner councils. The last of these was held on 11th April, at which lessons learned were captured, the trade unions and employee representatives confirmed that the process had gone well, and the employees involved had no issues.

3.2   The GO Shared Services senior management roles were in place formally from 1st April 2012, and work has now commence to shape the service (including accommodation issues) with the aim of completion during October 2012.

3.3   The Section 101 Agreements for the service delegations to Cotswold District Council, the revised Collaboration Agreement and the agreements for Cotswold District Council and Cheltenham Borough Council to provide services to Ubico Ltd were all completed and sealed by the end of March 2012 in preparation for GO Shared Services to come into operation on 1st April 2012. A few legal agreements, such as the secondment of deputy s.151 officers back to the partner councils, is being completed by the Cotswold legal team.

3.4   Many operational business processes have been standardised as part of the system implementation. However, there are some processes which require further consideration such as the overall budget setting process, budget monitoring processes and reporting, month end and year end procedures. The Shared Service Management Team has now taken ownership of these matters and will continue to make improvements to embed best practice and enable efficiencies to be delivered. Some of the changes to these processes will require consultation with Members at the partner authorities and the Management Team will ensure that this consultation is carried out. The JMLG will also have a role to play in reviewing proposed changes and helping to champion proposed changes at their respective authorities.

3.5   As part of standardisation, common Contract Procedure Rules and Financial Rules have been drafted for the partner councils. To date the Rules have been formally approved at West Oxfordshire District Council, Cheltenham Borough Council and Cotswold District Council. Forest of Dean District Council adopted the Contract Procedure Rules in April 2012 and the Financial Rules are planned to be adopted in July 2012.

3.6   The Annual Service Delivery Plan for the Shared Service has now been considered and approved by the COG at its meeting in May. In future, the plan for the following financial year will be prepared in the autumn for consideration by the COG by November each year.

3.7   Given that the Shared Service will be managing personal data for individuals, work has been carried out to ensure that individual's data protection rights are being protected. A small scale Privacy Impact Assessment has been carried out and the outcomes of the assessment will be reported to the COG at its next meeting. The Shared Services Management Team will take forward any recommendations for improvement.

3.8   As part of establishing the Shared Service, work has also been carried out on a Benefits Realisation Plan which details how the Shared Service will demonstrate that it has delivered the benefits as set out in the Business Case approved by all of the partner councils. The Benefits Realisation Plan has been incorporated into the GO Shared Services Service Delivery Plan and progress on benefits realisation will be reported to the COG and JMLG.

4.0   Communications and Training Update

4.1   Officers directly impacted by the shared services element of the GO Programme receive regular face to face updates from their respective Service Managers. This gives the opportunity for staff to receive updates on progress, to raise questions or provide feedback which is escalated to the GO Programme Office or to the GO Shared Services management team as appropriate.

4.2   The wider organisation is being kept updated on issues from the COG meetings via Operational Programme reports to SLT, GO Newsletters, Members Briefing updates, the GO website and CBC intranet. Training tools, including "how to" videos, will be included on the Council's intranet and the business change team will signpost officers to the appropriate pages. Training will also be provided on using the system to:

- order goods and services;

- raise invoice to debtors;

- approve annual leave requests;

- approve invoices for payment;

- produce budget monitoring reports.

5. Costs v Budget

5.1   The budget for implementation of the ERP system and the establishment of the Shared Service was £1.4m plus any one-off costs associated with the restructuring to take place in autumn 2012.

5.2   With the necessary re-phasing of the Programme, which saw the implementation of the ERP system at Cotswold District Council pushed back to August 2012, it is anticipated that the final costs will be around £1.5m.   The additional funding has been found from within existing budgetary resources/contingency funds at the partner councils – i.e. no partner council has needed to formally request additional funding for the GO Programme.

6. Conclusion

6.1   It is a testament to the hard work and dedication of all of the officers involved in this programme that the Shared Services have come into operation on time and that the underpinning ERP system has been successfully implemented across the vast majority of the partnership.

6.2   There remains a considerable amount of work to complete, including:

- Implementation of the ERP system Cotswold District Council;

- Driving out the planned savings including the restructuring to be carried out in the autumn;

- Ironing out the snagging issues of system implementation;

- Further standardisation of business processes.

6.3   Throughout this programme, productive relationships have been developed across the GO Shared Services partnership at all levels.   As the Head of GO Shared Services, I am confident that we can take on the challenges set out above and deliver successful partnership outcomes.

Agenda Item 6

Cheltenham Borough Council
Audit Committee – 20 June 2012
Internal Audit Monitoring Report

Accountable member	**Cabinet member corporate services**
Accountable officer	**Audit Partnership Manager – Robert Milford**
Accountable scrutiny committee	**Economy and business improvement**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered by AuditCotswolds, the council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor. The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report however is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.
Recommendations	**The Audit Committee considers the report and makes comment on its content as necessary**

Financial implications	*There are no direct financial implications arising from this report.* **Contact officer: Mark Sheldon, Chief Finance Officer** **mark.sheldon@cheltenham.gov.uk,** **01242 264123**
Legal implications	*None specific arising from the report recommendation.* **Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012**
HR implications (including learning and organisational development)	*No additional HR implications arising from this report.* **Contact officer: Julie McCarthy, HR Operations Manager** **julie.mccarthy@cheltenham.gov.uk,** **01242 26 4355**

Key risks	That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.
Corporate and community plan Implications	"*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*" (Chartered Institute of Internal Auditing UK & Ireland). Therefore the internal audit activity impacts on corporate and community plans.
Environmental and climate change implications	One of the specialist skills now provided by the service is that of environmental auditing. This would therefore aid the Council in its environmental and climate change objectives.

1.   Background

1.1   The Annual Audit Plan was aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2011/12 plan, the Councils Corporate Strategy 2010-2015 was being reviewed and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the recently prepared Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.

1.2   There is also a requirement to support the work of the External Auditor (KPMG). This is in the form of financial audits governed by the Joint Working Agreement, and the governance audits to support such activities as Use of Resources.

1.3   The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2.   Reasons for recommendations

2.1   The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.

2.2   Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to move to a more flexible and risk based plan.

2.3   It should also be recognised that the service is now a partnership so coordinating resources across multiple organisations is critical to the success of the partnership.

2.4   This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

3.   Internal Audit Output

3.1   The internal audit service commenced quarter 2 with reduced resources due to maternity leave. However there is still the expectancy to complete the audit plan 2011/12 as planned. The partnership made use of existing staff to cover the maternity issue by acting up one senior auditor to principal level and increasing the days available to another senior auditor.

3.2   Internal Audit has concluded the following audits in quarter 4:

Audit	Report status	Assurance
Payroll	Final	Limited
Council Tax & NNDR	Final	High

Housing Benefits	Final	Satisfactory

3.3 Further detail specific to each audit finalised is shown in **Appendix 1.**

3.4 AuditCotswolds has also undertaken the following:

- Audit support for the GO-Programme (see 3.5)

- Audit support for the Local Authority Company (see 3.6)

- Cheltenham Borough Homes – client (audit days delivered)

- Audit support for the Commissioning Programme

- Audit Support for the other key Change Programmes

3.5 GO Programme – Audit support at programme board level, independent assessment of gateway reviews and results, advice on the implementation projects including coordinating implementation audit support at Forest of Dean, monitoring of risk assessments and highlight reports, etc

3.6 Local Authority Company – Audit support at Project Board level, advice on project governance, risk management and gateway review systems, advice at implementation level projects, etc

3.7 Both of these projects are going to require internal audit services from 1st April 2012 and therefore some audit management time has been allotted to the development of new audit structures and plans for this provision.

3.8 The level of involvement the internal audit service has within the Cheltenham Borough Council change programmes is substantial but it is considered necessary when there is such a high level of risk with such significant changes being introduced.

3.9 Follow-up of recommendations has been completed and is detailed in Appendix 1.

Report author	Robert Milford, Audit Partnership Manager, 01242 775174, Robert.milford@cheltenham.gov.uk
Appendices	1. **Internal Audit Monitoring Report**
Background information	

Internal Audit Monitoring Report

Audit	Report status	Assurance
Payroll	Final	Limited

The Payroll system was reviewed to seek assurance that processes and procedures are operating effectively and in accordance with council policy. Previous audit reviews have given limited assurance opinions; therefore, given that the system will be shortly replaced by a new ERP system, Agresso Business World (ABW), this review has focussed only on key controls to identify any operational improvements and update the assurance level. Initial discussions were, however, held with relevant staff in relation to how control procedures will be maintained during the GO programme implementation phase and also whether at this stage any proposed changes to key controls are known about or being considered.

The review found compliance to external codes of practice and statutory regulations was satisfactory; however there were weaknesses in the accuracy and effectiveness of key internal controls. Most significantly:

- A reconciliation of the payroll system to the general ledger payroll control account is not routinely carried out at month end

- There is no independent review of exception reports for variable and non standard salary payments such as honorarium or maternity payments, where there is a greater risk of error or inappropriate payments.

- Management review and performance management procedures are not in place to minimise the risk of non compliance with policies or recurring processing errors.

These controls are fundamental to ensuring accurate and complete payroll transactions and financial records; therefore the assurance opinion at this stage remains 'limited'.

Audit testing covered new starters, temporary variations, permanent variations and terminations for April to Dec 2011. Processes and procedures had not changed since the last review; however staff changes over the last 12 months (loss of payroll expertise) have impacted on service standards and the effectiveness of administrative procedures in the team.

The ABW system is scheduled to go live In April 2012 and arrangements are currently in place for data cleansing and data migration. Additional resource (a temporary admin post) has recently been appointed, however continuing to provide day to day activities will still remain challenging as the implementation proceeds. It is vital that the development of the GO shared service for HR and payroll gives due consideration to improving the control environment, reducing the risk of payroll errors and raising performance standards.

Management Response:

Overall we are satisfied with the Audit and recommendations. We are pleased that the review found that compliance to external codes of practice and statutory regulations was satisfactory, but accept that at present internal controls need to be improved – and they will be with the introduction of the new ABW system, the key controls for which are not featured in this report. The Payroll service has been under pressure for some time regarding the required skills and knowledge levels, largely due to a single person dependency regarding knowledge and skills. This was temporarily resolved but returned again, then due to the maternity leave of the payroll advisor. Attempts at external recruitment through a variety of channels (including other councils, agencies, specialist agencies, websites etc) did not produce a solution. The service had hoped to build resilience through the OneHR project, which was not able to be progressed due to TBC dropping out of the Agresso Business World (GO) implementation, and subsequently the ABW and GO Shared Services implementation project The ABW implementation for CBC is on track to deliver from April 2012. This system, combined with and the GO Shared Services will provide the required service resilience (payroll knowledge, experience, and skills) and greatly improved internal controls. The ABW system is fully integrated, with the payroll functionality having many in-built features (e.g. reconciling with the general ledger, standardised month end reports and controls, set authorisation levels and processes) unlike the current separate CHRIS21 / APTOS systems

Within the ABW integrated finance/payroll and HR system, there are automatic authorisation levels and alerts, plus month end routines,that will enable effective management review and authorisation of the BACS payment prior to running the payroll each month. This is also the case regarding the procedures relating to independent checks for when the pay run is calculated.

Frontier resource of three days has been secured for year end (end April, early May 2012) to ensure year end actions are carried out to meet HMRC requirements. An additional part time member of staff was recruited, additional hours are being worked, and some annual leave has been bought out (consistent with Council policy). £7k was secured from the capacity funding budget for this purpose, to ensure that capacity is there to support ABW implementation.

It will take some time to get the payroll and hr team fully trained and fully confident in using ABW and bedding in the new processes. Training commenced w/c 5th March 2012 for ABW payroll; training for ABW HR is completed.

We anticipate that the volume of filing will reduce over time with ABW implementation, and will ensure a protocol is set in place to ensure effective filing of source documentation

Council Tax & NNDR	Final	High

Council Tax and NNDR processes and procedures are a core financial system of the Council and appropriate control over their operation is fundamental to the financial management element of the Council's statement of internal control.

The main objectives of the review have been to test the adequacy and effectiveness of internal controls; to ensure that current processes are meeting the requirements of internal policy, procedural standards and targets; and to ensure the processes are meeting external codes of practice, good practice and, as appropriate, statutory regulations.

Areas of work covered during the review have included property valuations (RV and banding); liability; billing; collection and refunds; recovery and enforcement. Results of all testing indicate a high level of compliance with required processes and procedures and no issues arose from the testing undertaken. Procedures remain well managed with experienced officers fully aware of their roles and responsibilities.

One area of concern that was raised last year related to staffing levels and resilience and consequences of any long term absences. Unfortunately this has come about with one member of the Council Tax team having been off sick since last October and there is no immediate prospect of their return. Whilst the team is coping this is putting a strain on the rest of the staff who are having to pick up the work. Any further absences of staff would have consequences. The Revenues Manager continues to manage this situation.

A number of minor points arose from the testing undertaken and these are referred to in the body of the report. None are significant enough to affect the audit opinion given.

Management Response:

Long term absence and some staff changes during the past year have had an impact on the Revenues Team. It has been necessary to constantly prioritise processes and reallocate tasks. The team has been extremely supportive and flexible during this period which has meant the affect on service delivery and the customer has been minimal

Housing Benefits	Final	Satisfactory

The review of the Housing Benefit system has considered the effectiveness of key controls and a general overview of the system. Testing was limited, but was sufficient to support the work of the External Auditor and comprised of walk through tests of new claims, changes to circumstances, overpayments and a review of a fraud case.

Processes and procedures for the administration of the Housing Benefit system were found to be working in accordance with internal policy, statutory regulations and professional good practice. Recommendations from the last review have been implemented, but the mid year reconciliation of the Housing Benefit system to the general ledger was not completed due to outstanding system faults; however the six month subsidy claim reconciliation back to payments was successfully completed. We did note that reliance is placed on the Benefits Manager to complete the subsidy claim. Discussions revealed support would be available from CIVICA (outsourced arrangement) and potentially from other Housing Benefit managers within the county. The whole benefits system is subject to significant uncertainty at the moment and any additional resilience from a shared working arrangement would not be a solution in the short term. To manage current service continuity risks the ongoing staffing and structure review could establish specific support for the Benefits Manager in completing the subsidy claim and other reconciliation procedures.

During the review there were several occasions where the Housing Benefit system was unavailable resulting in a period of downtime for benefit processing staff. We understand there are concerns with the system's server and that ICT are addressing these concerns. The ICT 'platform' that supports the Housing Benefit system must be reliable to assure service continuity and data security.

The service currently manages its operational risks effectively, however, the uncertainty about the significant changes to the Benefits system combined with the service running at full capacity (with resilience issues), could cause additional pressures on service delivery. Therefore, systems need to be robust to respond to the pace of change with minimum service interruption.

In addition, the bad debt provision must be kept in view to respond to changes in legislation and to ensure the Council's finances are not adversely affected.

Management Response:

The Benefit service is going through rapid change at the moment including the housing benefit work eventually transferring to Universal credit in 2017 and the council tax benefit work being replaced with a simpler council tax support scheme in April 2013.

In 2013 we have four additional projects to complete in addition to the normal day job. These are the overall benefit cap, under occupation restrictions in social housing, the Social fund becoming localised for housing expenses/short term need and the implementation of the council tax benefit replacement scheme.

Funding is being provided by DWP for these extra projects and fixed term staff will be employed if necessary throughout 2012 and 2013.

In April 2015 the DWP may also be offering the front of house contract for Universal credit to local authorities and pilot sites are currently reviewing all the options on service delivery.

New claims for universal credit will start to be made in October 2013 for working age customers and in April 2014 for Pension credit customers with Housing benefit work starting to slowly decrease in April 2014 over the following three years. The Fraud investigation staff

will transfer over to DWP in April 2015.

The structure in place from April 2012 will have at least two officers trained in all key tasks of the benefit service with segregation of duties controlled by software parameters to make sure no one officer does a financial task from start to finish and this will continue to be monitored as staff leave.

 The only exception to this is the subsidy claim and uprating, both of which take place annually when the majority of tasks are at Benefit Manager level, but in a crisis CIVICA support could be purchased or we could call on at least three other managers in the county who are on the same software. Other officers and the manager monitor aspects of the subsidy claim during the year such as payment reconciliation, overpayment recovery and estimates.

The software problems experienced during the audit are not common and are in the main due to a recent transfer to a virtual server, which has resulted in a reduction in speed. The initial solution to the problem was to transfer back to a new physical server, but that had to be aborted and we are awaiting an upgrade to the virtual server which will mean we can then add additional memory.

The other ICT problem is not specific to the CIVICA software and this is a time out/ system crashing at around 7:30 every night resulting in timed batch programs either not starting or not completing which means they have to be run during the day. Due to 'Go' work and a shortage of staff they have been unable to investigate this further and I have escalated the problem to both Mark Sheldon and Paul Woolcock.

Green Waste Accounting	Follow-up	

This note provides an update on the current position of the issues raised in the report submitted to Committee on the 21st March 2012 as part of the internal audit monitoring report (Agenda item 11). A limited assurance opinion was given to the report.

Audit has maintained a watching brief over developments since the original report was issued and it is intended that a detailed follow up review will be undertaken during this summer to confirm appropriate action is being taken on the issues highlighted and that adequate systems controls are in place.

The current position is as follows:-

- The database of bins issued was cleansed prior to handover to customer services and is now considered to be accurate and work satisfactorily by the Customer and Support Services Manager. Management reports available now provide appropriate information for maintaining an accurate record of renewals and new issues along with recovery of bins no longer required. As a consequence consideration of any new systems with Cotswold and Tewkesbury District Councils can proceed without undue pressure from failures in current arrangements.
- The Customer Services and Support Services Manager has taken on responsibility for income monitoring and control.
- Responsibility for stock control of the large number of bins held at the depot is being taken on by the Environmental Manager's team and work has already

been done to secure the stock of new bins in a locked compound at the depot. Appropriate stock control records are being developed and audit will have some input into developing these.(1,000 bins from stock have been sold to Tewkesbury).

- It was agreed that a check of bins being emptied against the database of those paid for by the green waste collection team would be undertaken to ensure only those bins paid for were being emptied (and to return any others to stock). The Managing Director, Ubico has delayed this check whilst the new arrangements have bedded themselves in but has stated that he intends to pick this up starting in June.
- Physical issue of new bins and recovery of those no longer required or paid for is the responsibility of Ubico (based on information provided via the database and customer services). Further work on this will be undertaken as part of the review during the summer.
- Garden bags have been introduced for some roads where appropriate. The Customer and Support Services Manager is maintaining a spreadsheet of issues and also monitoring income against this. The need for stock control records will be considered during the review.

Follow-up of audit recommendations:

The audits followed up and reported below were completed between June and Dec 2011

Cash Receipting

This was a satisfactory assurance audit opinion. Guidance for service areas who apply credit card charges is being considered as part of the next review of the Fees & Charges Policy in 2012-13.
Our recommendations concerning the petty cash and subsistence allowances have been implemented and staff have been made aware of improvements in controls. Reconciliation procedure notes have been written for the revenues section and will be updated shortly to include ABW routines.

Licensing

This was a satisfactory assurance audit opinion. The position has regressed in respect of completion of regular income reconciliations, as a result of the new ABW general ledger system not being fully functional. We will continue to monitor this position. Other recommendations have been implemented and a new organisational structure agreed and in place, which should bring additional benefits, including resilience.

Development Control (Planning Applications)

This was a satisfactory assurance opinion report. All recommendations have been implemented and the control objectives have been delivered. The completion of regular income reconciliations between the planning system and the general ledger was implemented as agreed. However, currently there are delays as the phased

rollout of ABW; the new general ledger system occurs. We will continue to monitor this position.

Green Waste Licenses

See above

Environmental and Sustainability Management

The follow up of this audit has been delayed to take account of the establishment of the Joint Waste Company (Ubico) in April 2012 and the developments in the Council's commissioning structure and methodology which will influence sustainability objectives.

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Cheltenham Borough Council
Audit Committee – 20 June 2012
Annual Internal Audit Opinion 2011~12

Accountable member	**Corporate Services – Cllr Colin Hay**
Accountable officer	**Head of Internal Audit – Robert Milford**
Accountable scrutiny committee	**Economy and Business Improvement Overview and Scrutiny**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	The Council must ensure that it has sound systems of internal control which facilitate the effective management of all the Council's functions. The work undertaken by Audit Cotswolds, the Council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the External Auditor (KPMG). The work is also a key component of the Council's Annual Governance Statement (AGS), which forms part of the statutory accounting statements. The attached Annual Internal Audit Opinion 2011/12 provides; • An overview of the operational arrangements which support the continued delivery of an effective internal audit service • A summary of the work undertaken during the year • My internal control opinion for the year, which is primarily based on the work of the service but also considers other assurance sources. The Annual Internal Audit Opinion is Appendix A
Recommendations	**That the Audit Committee accepts the Annual Internal Audit Opinion 2011/12**

Financial implications	None arising directly from this report **Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123**
Legal implications	There are no legal implications arising from this report **Contact officer: Peter Lewis , peter.lewis@tewkesbury.gov.uk,** **Main office 01684 272012** **Branch office 01242 264216**

HR implications (including learning and organisational development)	There are no HR implications arising from this report **Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk, 01242 264355**
Key risks	The delivery of an effective internal audit is a statutory requirement (Audit & Accounts Regulations 2011). The work supports the development and maintenance of an appropriate control environment, which is a key factor in the effective management of risk. There are no direct risks in relation to this report
Corporate and community plan Implications	The Internal Audit activity helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Environmental and climate change implications	The Internal Audit service is an independent, objective assurance and consulting activity designed to add value and improve the Councils operations.

1. Background

1.1 Members need to be confident that internal audit activity, along with other assessment processes like risk and performance management, helps to ensure that appropriate levels of assurance on the overall control environment operate within the council.

1.2 It has always been good practice to produce an Annual Report and Opinion Statement; this is now incorporated as part of the Code of Practice for Internal Audit in Local Government. The development of the AGS as part of the Annual Statement of Accounts has also increased the focus on Internal Audit as a key provider of evidence in respect of the statement and its associated action plan. This report and opinion has been considered as part of the AGS process, which follows good practice guidance.

2. Reasons for recommendations

2.1 This report summarises the main findings arising from our internal audit work completed within the year to 31 March 2011. The purpose of the report is to support the Statutory Officers and the Audit Committee in the delivery and monitoring respectively of effective corporate governance arrangements. The report is one element of a wider governance assurance framework and meets the annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4.2 that the report should:

a) Include an opinion on the overall adequacy and effectiveness of the organisation's control environment;

b) Disclose any qualifications to that opinion, together with the reasons for the qualification;

c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;

d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control*;

e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and

f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

2.2 The Code of practice also states at paragraph 10.4.1 that:

"The Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control"*

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations 2011. These state that:

"The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

"The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control."

3.   The Annual Internal Audit Report 2011/12 (Appendix A)

3.1   The Annual Internal Audit Report is attached; it covers the areas outlined in the code of practice for annual reporting. The report touches on aspects of the service and its delivery. It is important to note that the internal audit service has been delivered by Audit Cotswolds since November 2010.

3.2   The report gives an opinion statement on the control environment which forms part of the evidence considered when developing the Council's AGS. My opinion in respect of the control arrangements for the year 2011/12, based on the activities and systems examined and other assessment evidence, is '**satisfactory**' assurance (the four opinion options being; high, satisfactory, limited or low assurance).

3.3   The report comments on the annual review of the effectiveness of internal audit which for 2011/12 was based on a self assessment against the CIPFA Code of Practice and Audit Partnership Board appraisal which were both undertaken as part of the enhancement to the Internal Audit Service governance arrangements in September 2011.

4.   Changes in the Internal Audit Service

4.1   The past year has seen the establishment of a new three way partnership governance agreement, which came into force from 1st April 2012, between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 but now is delivered by Cotswold DC under a Section 101 agreement. The service will be looking to consolidate and develop this partnership through 2012/13. This will include further development of partnership working and ICT systems.

5.   Performance management –monitoring and review

5.1   Under the Section 101 Agreement this Audit Committee has responsibility for the monitoring of the internal audit output against the audit plan and the general performance of the service.

Report author	Contact officer: Robert Milford, Robert.milford@cheltenham.gov.uk, 01242 264115
Appendices	A – Annual Internal Audit Opinion 2011/12
Background information	

AuditCotswolds

'Working in partnership for a sustainable, high quality service'

CHELTENHAM
BOROUGH COUNCIL

INTERNAL AUDIT REPORT

Cheltenham Borough Council

Annual Internal Audit Opinion 2011/12

Introduction

In November 2010 West Oxfordshire District Council joined the Internal Audit partnership that already existed between Cotswold District Council and Cheltenham Borough Council. This partnership is now known as 'Audit Cotswolds' and provides the internal audit services for the Council. This service is required by statute. A significant part of the modern role of the service is the provision of a broad control evaluation function, by either offering or supporting control assurances gained through activities like risk management, performance management, complaints systems and external inspection.

Good practice guidance suggests that the Internal Audit Annual Report should include the key areas of;
- An opinion on the overall adequacy and effectiveness of the control environment,
- A summary of the work from which the opinion is derived,
- Comment on compliance with the Code of Practice for Internal Audit,
- A summary of service performance against its performance measures,
- Detail the internal audit quality assurance process and results.

This report makes comment on each of these and a number of other matters.

Responsibilities

It is a management responsibility to develop and maintain the internal control framework and to ensure compliance with it. The Audit Committee is responsible for obtaining assurance in respect of the control environment operating, part of which comes from the work and opinion of internal audit.

Opinion on the overall adequacy and effectiveness of the control environment

This Annual Report gives my opinion as the Head of Internal Audit and therefore the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cheltenham Borough Council. My opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year and, other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.

Throughout the year we have measured the degree of control assurance within the systems or elements of systems we have audited or supported by way of control advice. Overall, it is my opinion that a **satisfactory assurance** level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.

Where operational control issues were raised, these are subject to agreed action plans that mitigate risk or the auditors control advice is incorporated within the risk management arrangements for projects and system development or change.

A formal opinion statement is included in **Appendix 1**.

The Council's Annual Governance Statement (AGS)

The opinion of the Head of Internal Audit on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion, the work undertaken during the year, is detailed within Appendix A. There were matters arising from the work during the year that are deemed a significant control weakness by a 'limited assurance' opinion, these are detailed below. In these

areas, the risks associated with the control issues raised in the audit reports are being actively managed by the responsible Management.

Compliance with the Internal Audit Code of Practice

As well as offering an opinion based on the work undertaken during the year, the Annual Report should also provide the Senior Management and the Audit Committee with assurance that the internal audit service complies with professional internal auditing standards.

It is a requirement of the Accounts and Audit Regulations that Local Authorities undertake an annual review of the effectiveness of its internal audit provision.

This year due to the enhancement of the governance of the Audit Partnership being implemented through the financial year, to which this report relates, it was deemed appropriate to rely on the assessments undertaken through this process. The first was a self assessment reported to Audit Partnership Board, second was an assessment undertaken by the Audit Partnership Board, both of which were reported to this Committee in September 2011. The conclusion of the self assessment was that the Code of Practice is being met in all significant areas. The second assessment was conducted by the Audit Partnership Board on the 6th May 2011. Positive feedback from the Audit Partnership Board identified that they were satisfied with the work delivered to date and recommended the move to the enhanced governance in September 2011.

Quality Assurance Arrangements and Performance

There is a two stage review process to ensure the quality of the service. The first stage has been briefly mentioned above and is in the form of the Audit Partnership Board. The Audit Partnership Board operates under a Terms of Reference that was approved by the Audit Committee on the 30th September 2009. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness. On the 6th May 2011 the Partnership Board informed the Audit Partnership Manager that they were satisfied with the performance of the partnership to date through a formal appraisal.

The second stage relates to specific audit review work. There is a robust quality assurance process is in place for all audit review work that includes the following:

- The Head of the Audit Partnership is responsible for:
    - Developing an annual risk based plan in consultation with senior management
    - Ensure that the plan remains relevant through the year by realigning to new and emerging risks if necessary
    - Escalation of significant audit issues to the appropriate level to ensure risks are appropriately mitigated in line with management's risk appetite
    - Provision of training to audit staff to ensure continual professional development requirements are delivered and any specialist areas identified in the plan can be resourced e.g. environmental auditing.
- Principal Auditors within the team are tasked with:
    - Conducting periodic meetings with the auditor during site work,
    - Review and approval of the draft report,
    - Review and assessment of the working file,
    - Agreement of the 'points forward', the issues for consideration at next audit review or for the next audit plan

Further quality assurance is provided through the use of formal appraisal schemes and other staff based codes and programmes.

Effectiveness of Internal Audit

Although the above sections of this report outline compliance with national standards there is no national measurement of effectiveness. Indications are that we provide an effective service, actual measurements and evidence is provided through locally driven feedback and comparison through membership of the CIPFA benchmarking group, and that management are proactive in audit planning and responsive to recommendations and advice. We have an Audit Charter and work to an approved annual plan, there is now

a directing audit strategy, with the main drivers coming from the business case objectives. The Audit Charter and the Annual Plan demonstrates what the Council wishes from its internal audit service, for example the relationship or balance between financial, governance, and operational assurance, consultancy type work, value for money activity and counter fraud work. Whereas the Strategy provides details on the resources needed to meet these service requirements

Developing the Internal Audit planning process

The Audit Plan for 2011/12 was developed using a risk based process. In accordance with professional best practice there has been an increasing link between audit activity and the Council's risk management process and several reviews were undertaken on areas identified in risk registers. Although the audit plan approved at the start of the year is the basis for the year's activities the service needs to be responsive to emerging risks. Examples in 2011/12 of unplanned work includes supporting the implementation and set up of Ubico Ltd (the Local Authority Company).

Resourcing

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2011/12 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (IIA)
- Chartered Management Institute (CMI)
- Chartered Institute of Management Accountants (CIMA)
- Institute of Management Services (IMS)
- Institute of Accounting Technicians (AAT)

Furthermore there is now a considerable amount of internal audit experience available, many of these gained at senior management level and drawn from both the public and private sectors.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts. We have provided audit assurance to Tewkesbury BC over the Building Control Shared Service and they have reciprocated with assurance over the One Legal Shared Service. Furthermore for the GO Shared Service a working relationship with the Internal Audit team at the Forest of Dean DC was developed.

There is an agreement with the Chief Finance Officer that funding will be made available to engage 'specialist' audit or 'professional' skills should an audit activity demand this, which supports the Code of Practice which requires access to such skills if needed.

Training undertaken during the year

Audit work demands a sound understanding of all sectors of the organisation, of professional standards, of developing and emerging trends, and of issues both with the profession (including professional requirements for continuing professional development (CPD)) and local government for the services provided to the Council. During the year the following training was undertaken:

- Continuing professional development – CIPFA audit training seminars
- IIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference
- Two members of the team are on the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification.
- One member of the team has commenced a PhD on Shared Service Governance in Local Authorities

Looking forward

The past year has seen the establishment of a new three way partnership governance agreement between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 and now operates (as at 1st April 2012) under a Section 101 Agreement with Cotswold DC as the host. All Cheltenham BC audit staff have TUPE transferred to Cotswold DC. The

service will be looking to consolidate and develop this three way partnership through 2012/13. This will include further development of working practices and audit related ICT systems. This will ensure a sustainable, high quality service will continue to be delivered for the Council.

Conclusion

During the year, Audit Cotswolds delivered a programme of work and responded to emerging issues. The service continues to make a valuable contribution to an improving control environment and culture within the Council.

The work, support and advice provided by Audit Cotswolds will be key in relation to the controls and their effectiveness in the management of risk as the Council seeks to; meet efficiency targets, reduce its budget, review its methods and approach to service delivery levels, embraces new challenges, increase partnership working and engages the shared services agenda.

Robert Milford DMS MA PGDip CMIIA MCMI AMS

Head of Audit Cotswolds (Head of Internal Audit)

Cheltenham Borough Council

Cheltenham Borough Council

Audit Partnership Manager & Head of Internal Audit

Opinion on the effectiveness of the system of Internal Control for the year ended 31 March 2011

Roles and responsibilities

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS), is an annual statement from the Chief Executive and the Leader of the Council, on behalf of the Council, setting out the governance control environment, the review of its effectiveness, the control issues and the actions planned to further improve the control environment.

The Council's control assurance framework should bring together all of the evidence required to support the Annual Assurance Statement requirements.

In accordance with CIPFA Code of Practice for Internal Audit in Local Government, the Head of Internal Audit is required to provide an annual opinion, based upon, and limited to, the work performed, on the overall adequacy and effectiveness of the organisation's control arrangements. This is achieved through a risk-based programme of activities, agreed with management and approved by the Audit Committee, which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews.

The Head of Internal Audit Opinion

The purpose of my annual Head of Internal Audit Opinion is to contribute to the assurances available to the Chief Executive and the Council which underpin the Council's own assessment of the effectiveness of the authority's system of internal control. This opinion is one component that the Council must take into account when completing its Annual Assurance Statement.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

My **overall opinion** is that

> **Satisfactory assurance** can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. Some weakness in the design and/or inconsistent application of controls have been identified, recommendations made and improvement plans agreed.

The **basis** for forming my opinion is as follows:

1. An awareness of the design and operation of the processes which underpin the overall control framework, and

2. An assessment of the range of individual opinions arising from risk-based internal audit assignments, contained within internal audit's risk-based plan that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Additional areas of work that support my opinion;

3. The outcome of other external inspections of internal control systems throughout the year, for example reports provided by KPMG and Tewkesbury BC Internal Audit

The **commentary** below provides the context for my opinion.

<u>The range of individual opinions arising from risk-based audit assignments, contained within the annual plan that have been reported throughout the year.</u>

A table of internal audit work in 2011/12 is detailed in **Appendix (i)**

The control environment within key financial systems is satisfactory and this assessment is consistent with the findings of the External Auditors for a number of years. There is still scope to improve the arrangements for some of the key governance activities examined and these are being actively progressed both through the transition to new management arrangements, which is supported by agreed action plans, following internal audit reviews.

There were four areas where a 'Limited Assurance' opinion was deemed appropriate.

The Payroll system was reviewed during January 2012 and resulted in a third 'Limited Assurance' opinion. The audit report highlighted weaknesses in input controls, management review routines and reconciliation procedures. The management response to audit recommendations looks to the new GO Shared Service to resolve key elements of weakness in the systems and address the payroll resilience issue. Progress will be tracked by the Corporate Governance Group through the Significant Issues Action Plan and the system remains on the Corporate Risk Register.This is a routine audit area and as such will be reviewed again in 2012/13.

A 'Governance Compliance' audit was undertaken with the focus on Member and Officer Registration of interests, gifts and hospitality. The audit opinion was a limited assurance as expected controls for officers' interests and hospitality were not in place and current processes were not robust enough to ensure the Members Register of Interests is effectively maintained or that declarations of hospitality are adequately recorded.

A review of the Green Waste Accounting highlighted a number of points concerning current control arrangements relating to both income management and the stock of green waste bins at the Depot. These were unsatisfactory and fall well short of complying with the Financial Rules of the Council. Some issues also emerged in relation to the total accuracy of the existing database (e.g 'chargeable' addresses not having been recorded in the database where these differ from 'bin' addresses; some duplication of entries in the database) which will cause difficulties in the renewal process if not corrected before renewals commence. Current availability of management reports from the database was also limited.

A review of the Building Control Shared Service (between Tewkesbury BC and Cheltenham BC) identified that there were issues in the practical application of the governance framework and that various meetings required to effectively manage the service as per the governance agreement. The key issue was ensuring that the joint manager of the service had regular meetings with the 'Client Officers' simultaneously to ensure both parties had a clear understanding of the expectations of the other party. This was combined with an unclear series of benefit realisation criteria and performance aims from the business case.

Other significant audit activity - The Health Check review of Business Continuity Plans (BCP) in 2010/11 identified that BCP still required full testing and as such Internal Audit is now actively monitoring this area. This is being assessed through two elements firstly through Internal Audit assessments of: 1) desk-top testing being undertaken (this did occur in 2010/11) and 2) the full testing element planned for later in 2011 prior to the GO ERP system going 'live'. BCP has been monitored throughout 2011/12 and various issues have been reported to management.

The GO Shared Service and Local Authority Company (Ubico Ltd) programmes/projects placed a high demand on the audit service. The simultaneous implementations of GO and Ubico Ltd for the 1st April 2012

resulted in significant changes to the approach for core financial audits (GO related) as the systems in 2011/12 became obsolete for 2012/13, and the requirement to aid the build of a completely new company.

In 2011/12 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within these reports details of all full audit reports were provided for Audit Committee comment along with information relating to the service.

For the some areas identified in the table below no formal assessment in relation to control activity is made, but the general observation and advice given as part of this work feeds into my assessment of the overall control environment. Our observations and the acceptance of advice has, I feel, further enhanced the control environment.

The assessments reported from other inspection processes

In formulating our overall opinion on internal control, Internal Audit were aware of the work undertaken by other sources of assurance, their findings and their conclusions:

- External Audit (KPMG) - various reviews including the Annual Audit Letter
- External Audit (KPMG) – the Public Interest Report
- Internal Audit at Tewkesbury Borough Council – One Legal Shared Service Audit (Satisfactory Assurance Opinion Given)

Other assessments considered

The Certificates of Assurance (control self assessments by management)
The other control assurance statements and supporting evidence which are considered in the completion of the Annual Governance Statement.

Robert Milford DMS MA PGDip CMIIA MCMI AMS

Head of Audit Cotswolds (Head of Internal Audit)

AuditCotswolds

Cheltenham Borough Council

Table of internal audit work in 2011/12   **Appendix (i)**

	AUDIT ACTIVITY / REVIEW AREAS & ASSURANCE LEVELS			
	The table below provides a summary of the internal audit service activities and assurances gained.			
	Audit Activity	**Assurance Opinion (if relevant)**	**Status**	**Type**
1	DCLG Consultation		Final	Consultancy
2	Effectiveness Review of Audit Committee		Final	Consultancy
3	Audit Partnership Governance ~ enhancement report		Final	N/A
4	Green Waste Accounting	Limited	Final	Assurance
5	Local Authority Company Programme		Ongoing	Consultancy
6	ICT VFM Support		Final	Assurance
7	Planning Applications	Satisfactory	Final	Assurance
8	Health & Safety ~ Health Check		Final	Assurance
9	Car Parks - follow-up	Satisfactory	Final	Assurance
10	National Fraud Initiative & Survey		Final	Assurance
11	Resource Management / Capacity		Ongoing	Assurance
12	Cheltenham Development Task Force		Ongoing	Consultancy
13	Licensing	Satisfactory	Final	Assurance
14	Follow-up of recommendations – throughout the year		Ongoing	Assurance
15	Network Application Control Incident		Final	Assurance
16	Mobile Phone Usage Incident		Final	Assurance
17	Commissioning		Ongoing	Consultancy
18	Art Gallery & Museum Project		Ongoing	Assurance
19	Building Control shared service	Limited	Final	Assurance
20	GO programme assurance (Gateway Reviews)		Final	Assurance
21	GO project assurance (CBC implementation)		Final	Assurance
22	Governance Compliance ~ Register of interests / Gifts & Hospitality	Limited	Final	Assurance
23	Petty cash reviews	Satisfactory	Final	Assurance
24	Payroll	Limited	Final	Assurance
25	General Ledger	High	Final	Assurance
26	Budgetary Control	High	Final	Assurance
27	Capital Programme	Satisfactory	Final	Assurance
28	Treasury Management	High	Final	Assurance
29	Creditors	Satisfactory	Draft	Assurance
30	Benefits	Satisfactory	Final	Assurance
31	Council Tax	High	Final	Assurance
32	NNDR	High	Final	Assurance
33	Sundry Debtors	High	Final	Assurance
34	Cash Receipting	Satisfactory	Final	Assurance
35	Bank Reconciliation	High	Final	Assurance
36	AGS review		Final	Assurance
37	Performance Management	Satisfactory	Final	Assurance
38	Risk Management	Satisfactory	Final	Assurance
39	Change Programme & Projects		Ongoing	Consultancy
40	Business Continuity Management		Ongoing	Assurance
41	Investigations	N/A	Final	Assurance
42	Corporate Governance Group	N/A	Ongoing	Consultancy

End.

Agenda Item 8

Cheltenham Borough Council
Audit Committee – 20 June 2012
Annual governance statement

Accountable member	**Councillor Jon Walklett, Cabinet member corporate services.**
Accountable officer	**Mark Sheldon, Director of Resources.**
Accountable scrutiny committee	**Economy and Business Improvement.**
Ward(s) affected	**None.**
Key Decision	**No.**
Executive summary	The council has a statutory duty to prepare an Annual Governance Statement (AGS) (appendix 1) to be approved as part of the annual statement of accounts The AGS is for the period 1st April 2011 to 31st March 2012 and indicates how the council is complying with the local code of corporate governance including the internal control arrangements and management of risk The audit committee need to satisfy themselves that the AGS fairly reflects the arrangements within the council and that the suggested action plan will address the significant governance issues identified by the review.
Recommendations	1. The audit committee approve the AGS and recommend to council that it is adopted as part of the statement of accounts, and 2. Recommend to the Leader and Chief Executive officer that they sign the AGS, and 3. Request an update report in December on progress against the actions.

Financial implications	None arising from this report. **Contact officer: Mark Sheldon,** **Email; mark.sheldon@cheltenham.gov.uk, Tel; 01242 264123**
Legal implications	**Contact officer: , @tewkesbury.gov.uk, 01242**
HR implications (including learning and organisational development)	As outlined in the body of appendix 1. **Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk, 01242**

Key risks	None arising out of this report
Corporate and community plan Implications	Good governance helps to deliver the councils aspirations to be an excellent, efficient and sustainable council. It also ensures that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	None

1. Background

1.1 The Accounts and Audit (England) Regulations 2011 regulation 4(2) requires council's to conduct an annual review of the effectiveness of its system of internal control including the arrangements for the management of risk, following the review; the Council must approve an annual governance statement.

1.2 Each March, assurance statements and evidence tables are issued to the Directors for completion. The evidence tables act as internal control checklists which confirm/review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance. Directors have the responsibility for the completion of the Certificates.

1.3 Once complete, the evidence tables and the Certificates are reviewed by the Director of Resources, Audit Partnership Manager and the Governance, Risk and Compliance officer to identify any governance or control improvements which should be included in the action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other relevant evidence. The Annual governance statement is considered by the Senior Leadership Team and the Corporate Governance Group before it is submitted to this committee ahead of its consideration by Council for approval as part of the Statement of Accounts.

1.4 The process has identified a number of control issues, and these are highlighted in the annual governance statement. Officers will work with the respective Directors to produce an action plan with key milestones which address these issues. The corporate governance group will monitor progress and will report back to the audit committee.

2. Reasons for recommendations

2.1 The Annual governance statement will be reported to Council on the 25 June 2012 for formal approval and Audit Committee's opinion and suggestions for the action plan are sought to ensure that all of the Significant Issues have been identified.

3. Alternative options considered

3.1 None

4. Consultation and feedback

4.1 The results of the annual assurance review have been considered by the Senior Leadership Team and the Corporate Governance Group.

5.   Performance management – monitoring and review

5.1   A monitoring report will be brought to Audit Committee in January 2012.

Report author	Contact officer: Bryan Parsons, Email; bryan.parsons @cheltenham.gov.uk, Tel; 01242 264189
Appendices	1. Annual governance statement.
Background information	None.

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Annual Governance Statement 2011 - 2012

Scope of responsibility

1. Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

2. There are legal and formal controls in place to ensure that it is clear who is accountable for money and governance controls at the local level. The Local Government Act 2000 provides the current governance arrangements for local government with the ultimate accountability lying with the full council. The Cabinet is responsible for proposing the policy framework and budget to Council, once agreed; the cabinet then goes on to implement those decisions.

3. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions as defined by the constitution, and the management of risk.

4. The Council has approved and adopted a Code of Corporate Governance (CCG), which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.

5. You can download a copy of the local Code of Corporate Governance (CCG) from the council's website or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA

6. This statement explains how Cheltenham Borough Council has complied with the code and also meets the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

The purpose of the CCG – the Governance Framework

7. The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

8. The internal controls are a significant part of the framework to support the management risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to support the achievement of Cheltenham Borough Council's objectives and actions.

9. The CCG for the period commencing 1st April 2011 was reviewed by the Corporate Governance Group and approved by Council in March 2010 and there was a further review in March 2012 by the Audit Committee.

The Governance Framework

10. The Code of Corporate Governance identifies 6 principles that underpin the effective governance of the council, and these have been used when assessing the adequacy

of its governance arrangements. The main elements that contribute to these arrangements are set out below:

Principle 1 - Focusing on the purpose of the Council and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.

11. The council has a 5 year Corporate Strategy (2010 -15) which clearly articulates how the council will deliver better outcomes for the community either directly or in partnership. The strategy was based on the sustainable community strategy – a document which was drawn up following extensive public consultation on key issues and priorities for the town and which sets out a long term vision for Cheltenham.

12. The Corporate Strategy action plan is updated on an annual basis to reflect new priorities and any issues which have arisen since it was approved to provide a clear work programme based on priorities for the council. This document is approved by Council. Monitoring reports are considered by the Senior Leadership Team and taken to meetings of the overview and scrutiny committees to ensure that the council's objectives are progressing as planned.

13. The Corporate Strategy supports Cheltenham's Community Strategy which sets out its vision for the long-term future of Cheltenham as

    "We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations."

14. On 28th June 2010, the Council formally agreed to adopt a strategic commissioning approach that
    i. puts a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for public services,
    ii. seeks to work much more closely (including sharing budgets where appropriate) with other parts of the public service and the voluntary and community sector (VCS) and
    iii. makes objective, transparent, evidence-based decisions about how services should be provided and by whom.

15. By using this strategic commissioning approach, the council will improve the outcomes for people who rely on the council and the wider public sector whilst at the same time creating opportunities for financial savings.

16. The 2011-2012 Corporate Strategy also included an additional commitment to this Vision

    "By April 2012, we will lead our community by taking a commissioning approach. We will be driven by the needs of people and place, in order to improve wellbeing, the economy and the environment and use resources efficiently and effectively"

17. The above vision for commissioning has been realised through a programme of change led by the Chief Executive. The Strategic Commissioning Programme had its own governance arrangements and was managed through a programme board for the period up to spring 2012; it considered which services should be in scope for commissioning, and how they will be delivered in the future.

18. During 2011/12 there were 3 key commissioning reviews;
    - Built Environment services

- Leisure and Culture services
- Partnership working.

19. These reviews have followed the commissioning cycle; a Commissioning Protocol and toolkit were developed to ensure that commissioning reviews are inclusive and comprehensive.

20. Cheltenham Borough Council and Cotswold District Council formed a Local Authority Company (Ubico) and are partners in the wider Gloucestershire Joint Waste Partnership. The new Company and the Joint Partnership can operate independently of one another.

21. The decision to form Ubico from April 2012 contributes to the council's strategic commissioning objectives and is the chosen vehicle for partnership working in this case with the aim of delivering improved outcomes and value for money. It is estimated that annual savings for the council will increase to c£400,000 by 2014/15.

22. Tewkesbury Borough Council has requested to join Ubico and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within Cheltenham and the wider partnership area.

23. The Built Environment and Leisure and Culture Commissioning reviews began by analysing;

- community needs
- what resources are available to CBC and our partners to meet the needs and
- what our priorities are.

24. In 2012/13 the Council will decide on the most appropriate way for Leisure and Culture to achieve its objectives.

25. The Place Based Commissioning review commenced July 2010 with the aim "To have a fit for purpose Cheltenham Strategic Partnership (CSP) that is ensuring partner resources are targeting the priority needs in Cheltenham". As part of the review, senior officers and practitioners within the public sector and the voluntary and community sector, participated in the Partnership Improvement Programme (PIP) to consider the strengths of partnership working in Cheltenham and areas where they would like to improve to meet local needs in the light of changing legislation.

26. A draft structure of three new partnerships was proposed and agreed by all participants. With simplified governance arrangements a more flexible approach, outcomes focussed with the potential to engage diverse groups.

27. The draft structure was consulted on over the summer and the final proposals were endorsed by the CSP on 29 September and CBC's Cabinet on 18 October. The new partnerships are;

1. Positive Participation Partnership
2. Positive Lives Partnership
3. Strategic Leadership Group

28. Members of Executive Board agreed to take a lead on the partnerships, and along with the relevant Cabinet member are able to ensure that the council's views are fully represented at partnership meetings.

29. The Cabinet agreed a Medium Term Financial Strategy which is in line with the priorities as set out in the council's business plan and identifies any expenditure which

may need to be incurred to meet new legislation or changes in service provision and reflects the financial impact of government plans to tackle the level of national debt. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the council has described within its Medium Term Financial Strategy how it will broadly achieve the budget gap target while keeping council tax at a reasonable level. Each year the council looks to areas where it can make its efficiency savings, budget cuts or additional income, which will not impact on its ability to deliver in priority areas.

30. In February 2012, Cabinet and council members met to discuss the final budget report for 2012/13. The government had announced that it would cut on-going support to the council by a further £534k in 2012/13 which cumulatively equated to a 23% cut over two years. As a result the council had to identify, prioritise and make savings to meet this funding gap. This reflected on the budget consultation exercise that was undertaken during 2010/11 and new objectives identified by elected Members.

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles.

31. The council's constitution defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.   The Leader has allocated executive functions to himself, Cabinet Members, Cabinet and officers and those functions are undertaken in accordance with the Council's Budget and the Policy Framework (which includes the 5 year Corporate Strategy).

32. The council's constitution and policy framework are approved by Council, and is subject to periodic review. A constitution working group comprising of elected members and officers led the review in 2011/12. The constitutional changes mainly relate to Part 3 - Responsibility for Functions, Part 4 - Procedure Rules, O&S Rules, Budget and Policy Framework Rules, Financial Rules, Contract Rules, Part 5 - Employee Code of Conduct.

33. There are three overview and scrutiny committees which hold the bodies exercising executive functions to account and assist with policy formulation; from May 2012, there will be one overview and scrutiny committee assisted by scrutiny task groups. This change has arisen out of a review which commenced in July 2011. The brief was 'to ensure that there was an effective scrutiny process in place to support commissioning and achieve positive outcomes for the town.

34. The council has two committees which deal with governance, internal control and ethical arrangements, (Audit Committee and Standards Committee).

35. The Audit Committee meets four times per year and its terms of reference are set out in the council's constitution. The council's external auditors have access to the committee, and the committee also has responsibility for overseeing the risk management process. A review of the Risk Management Policy including the Risk Scorecard took place in March 2012 to ensure that they reflected the changes brought about by the Senior Officer restructure and the strategic move towards becoming a Commissioning Authority by April 2012. The Audit Committee also receives routine information papers on the work of the Corporate Governance Group which monitors Significant Issues arising from the Annual Governance Statement.

36. The Localism Act 2011, which abolished the statutory national standards framework for elected members, removes the requirement for a statutory standards committee.

Therefore, the council will be deciding in 2012 whether to retain a local standards committee and, if so, what form it will take.

37. The Staff and Support Services Committee, which dealt with employee related functions, were discontinued in February 2011; those functions are now dealt with by the Appointments and Remuneration Committee and senior officers. In addition there are two quasi judicial committees which deal with licensing and planning.

38. Cheltenham Borough Council's Cabinet agreed in July 2011 to partner with three other councils, West Oxford DC, Forest of Dean DC, and Cotswold DC - to implement a new shared service called the Go Partnership covering Finance, Procurement, Human Resources and Payroll. Employees involved in the provision of these services transferred (TUPE) into the employment of Cotswold District Council (as the employing council) from April 2012.

39. The Financial Rules were reviewed in co-ordination with the GO Partnership and approved by Council in October 2011.The new Rules allow greater conformity across the partnership organisations when processing work or customer accounts. Also, the Contract Rules were reviewed on the same basis and approved by Council in March 2012. Both sets of Rules took effect 1st April 2012.

40. The council has a Chief Executive who is the Head of Paid Service which is a statutory position as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the Councils activities, including its management structure, the number of staff employed and the salary grades of chief officers.

41. A pay policy statement is required to be produced annually under section 38 of the Localism Act. The Council agreed its 2012/13 statement in March 2012 which is available to employees through the intranet and to the public through the internet.

42. The Council approved revisions to the Constitution in March 2012, Article 2 refers to the roles and functions of elected Members.

43. Article 12 refers to the roles and responsibilities of the statutory officers.

44. The Council also approved a revised Code of Conduct for all employees on the 26th March 2012 which provides additional information on roles and responsibilities.

45. The Council appointed a Monitoring Officer under a shared service agreement with Tewkesbury Borough Council (to ensure lawfulness and fairness of decision making and to support Standards Committee) and a Director of Resources who is the section 151 officer (to ensure lawfulness and prudence in financial decision making and that the council's financial arrangements are sound); these are both statutory posts.

46. The Executive Board and the Senior Leadership Team have clear terms of reference and provide guidance and advice to Members on policy options and implications. All reports identify options, the financial, legal and HR implications, any risks associated with the matter, as well as how it addresses priorities within the Corporate Strategy.

47. The council has an internal audit function called Audit Cotswolds which reports to the council's Audit Committee. In September 2009 the Audit & Assurance Services for Cheltenham Borough Council entered into a partnership with the Internal Audit Services at Cotswold District Council. Audit Cotswolds is managed by a Partnership Board with its own Terms of Reference and representatives from each authority. Due to the success of this partnership, and also in light of developing further, the partnership was expanded to include West Oxfordshire District Council.

48. In 2011/12 Audit Cotswolds Board considered that the partnership had been successful and should move to a more formalised governance arrangement. A report was made to Cabinet in November 2011 confirming that the partnership had met the original business case objectives. It was agreed that the partnership be formalised through a Section 101 agreement (delegation of functions) of the Local Government Act 1972 from April 2012.

49. The Corporate Governance Group has agreed Terms of Reference and is chaired by the Chief Executive it reviews the effectiveness of the council's internal controls and reports the results to the Audit Committee.

50. The council has external inspection and audit undertaken by KPMG the external auditors appointed by the Audit Commission and their annual management letter is presented to Members.

51. In September 2011 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2010/11 Annual Governance Statement accords with their understanding. They also concluded that it complied with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and that it was not misleading or inconsistent with other information that they were aware of from their audit of the financial statements.

52. The council has a treasury management panel with cross party support from Members that oversees the council's treasury management strategy and an asset management working group that oversees the way in which the council manages its property assets.

53. The council's policies are easily accessible to employees and Members on the intranet and they are also provided with update/briefing seminars as appropriate.

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour.

54. In 2004 the council adopted a series of nine values that underpin everything it does; these are promoted to staff and Members on the intranet, and were incorporated into the council's competency framework which forms part of the annual appraisal of employees.

55. The code of corporate governance was reviewed March 2012 and a revised code was approved by the Audit Committee in March 2012 and will be included in the council's constitution from June 2012. This code clearly sets the aspirations of the council in ensuring that there are effective governance arrangements.

56. All Members and officers are subject to codes of conduct, and periodically training sessions are held. Members and officers must declare any interests and registers of those declarations are maintained. The council's Monitoring Officer and Standards Committee are responsible for ensuring that reported breaches of the Code of Members' Conduct are investigated appropriately. The Code of Members' Conduct will be reviewed in 2012 in the light of the abolition of the national standards framework.

57. The Chief Executive and other members of the Senior Leadership Team routinely promote good governance messages to employees and Members through the intranet, employee blogs and Twitter.

58. Members of staff are encouraged to shadow the Chief Executive to promote their understanding of the wider aspects of the councils work. They are then given the

opportunity to be a guest on the Chief Executives Blog to provide their views on the experience to other staff.

59. The council's Whistle Blowing policy was reviewed and revised in August 2010 and its Anti-Fraud and Anti-Corruption Policy is currently under review to ensure that it aligns to the requirements of the new Bribery Act and the working arrangements of the Go Partnership. These documents are available on the council web site, and accessible to Members and employees from the intranet site.

60. The council has a complaints process and quarterly reports analysing the nature and type of complaint are considered by the senior leadership team.

61. There is a competency framework for its employees who are assessed through the annual appraisal process and these competencies reflect the core values of the council which underpin good governance arrangements.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

62. In December 2010 the Council, as required by legislation, adopted new executive arrangements based on the new style strong leader and Cabinet model to take effect from May 2012. As the council already operates executive style arrangements the main differences with the new model is that the Leader will be appointed for a 4 year term (subject to removal by Council) and must appoint a deputy leader.

63. The Leader can delegate their executive functions to members of the Cabinet or to officers and this is set out in the council's constitution. Meetings of Cabinet are held in public, agendas are published in advance and the minutes of the meetings are available on the council's web site or for public view in libraries and the council offices. Decisions made by the Cabinet must be in accordance with the Budget and the Policy Framework which are approved by Council.

64. Arrangements are in place for other council committees with published agendas and minutes. For all meetings of the council the public are able to ask questions (with advance notice).

65. There are currently three overview and scrutiny committees which hold the Cabinet to account and have (subject to criteria) the ability to call in decisions of the Cabinet. A review involving officers and Members took place during 2011/12 to consider the work of these committees, following this review Council agreed in December 2011 that the new arrangements should be centred on a single overview and scrutiny committee supported by task and finish groups from May 2012.

66. In March 2011 the Council agreed a 5 year Corporate Strategy (2010-2015) alongside an action plan for 2011-12. The Senior Leadership Team has collective ownership in ensuring that the Corporate Strategy and its supporting actions are monitored and delivered.

67. The council has a performance monitoring system which provides up to date information as to how the council is performing against a number of performance measures and milestones including those set out in the Corporate Strategy and action plan.

68. The council also prioritises expenditure based on need and provides scrutiny and Cabinet with quarterly budget monitoring reports. The council has an appraisal

process where all employees are set objectives for the coming year which meet the business plan priorities.

69. The Council approves the council's standing orders, financial rules and scheme of delegation and these are periodically reviewed to ensure that they are still relevant and appropriate. The constitution working group plays an important role in reviewing the council's constitution ensuring that changes are considered in greater detail ahead of their consideration by council. The council has a Risk Management policy which was revised and approved by the audit committee in March 2012 and clearly identifies roles and responsibilities for both Members and staff.

70. The Senior Leadership Team is responsible for the management of corporate risk process. The corporate risk register which includes the risk, mitigating actions, deadlines and the details of the responsible officers is updated and reported to them on a monthly basis. These risks were reported to Economy and Business Improvement overview and scrutiny committee and the Cabinet. Divisional risks are the responsibility of Directors and individual service managers. Any divisional risk that has corporate implications and scores 16 or over is escalated to the Senior Leadership Team for consideration.

71. Internal Audit carried out an assessment of the risk management process and has made a number of recommendations for improvement. These recommendations are being monitored by the Corporate Governance group and a new risk management module has been ordered to improve functionality and reports.

72. During 2009/10 the Council received a public interest report from its auditors in relation to the decision making process on a legal case. The report was considered by the council including a number of recommendations; an action plan was developed to address the issues raised. All of the recommendations within the report were actioned before the required deadlines and changes were made to the council's constitution where necessary.

73. The Cabinet agreed new RIPA guidelines in October 2010 and these were reviewed in March 2012. There were no applications to use these powers during 2011/12. Staff who could be involved in the process attended training sessions and information about the process has been made available on the intranet.

74. The council has an Information Management Group that developed an Information Management Strategy that was approved by SLT; it also reviewed the information management and data protection procedures and processes. These reflect partnership working and the sharing (where appropriate) of information with other organisations.

75. Internal auditors reviewed the Corporate Governance arrangements following the 2010/11 assurance check which led to a number of further improvements to the process and reporting protocols.

76. The council's budget is set annually and agreed by council. Monitoring reports are presented to Cabinet and an outturn report and annual statement of accounts is approved by the Audit Committee.

77. The council manages its budgets through cost centre managers who are responsible for the day to day management of their income and expenditure in line with financial rules. The council reports how it intends to balance its budget when the council approves the budget proposals each February and reports progress in the quarterly Budget Monitoring Reports to Cabinet.

Principle 5 - Developing the capacity and capability of Members and officers to be effective.

78. There is a People and Organisational Development Strategy that sets out the council's longer term aspirations for member and officer development, together with an annual action plan. Skills gaps within the organisation have been identified and a programme of learning interventions is being delivered. Progress will be monitored and development reassessed as part of the appraisal process. There is a member training programme, which is supported by both the human resources division and democratic services. Generic training needs for Members are identified in consultation with Members and group leaders. All Members have personal learning accounts on the council's Learning Gateway, to log training needs and record training undertaken.

79. During the course of the year the council's external auditors identified the need to review the way in which the council delivers training to its Members and this has resulted in a greater input from the human resources division, better usage of the council's learning gateway system and proposals for supporting new Members following the election (e.g. "buddying" new Members with officers to help them orientate themselves into the council). A new on-line risk management training module for Members and staff has been developed which is available through the learning gateway.

80. Officer learning and development needs are identified through the appraisal process and 1-2-1s and fed into the professional and corporate training programmes. The Senior Leadership Team and service managers have recently completed a leadership development programme, the principles of which are used to underpin coaching relationships for executive directors, directors, service managers and the wider organisation. The senior leadership team has adopted a "balanced scorecard" approach to their appraisal process.

81. The council has adopted a programme and project management approach to its key change programmes and has released capacity for programme and project support. This approach has enabled the better use of resources to focus on the key delivery issues.

82. Certain Members were appointed to represent the council on outside bodies i.e. companies, charities and unincorporated associations. The council' constitution includes guidance to officers and Members who take an active part in these organisations. This guidance was reviewed and updated to reflect best practice and changes to the CBC Code of Members' Conduct. The Guidance includes a checklist of issues that should be considered in the event of being nominated to an outside body.

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability

83. Cheltenham Borough Council as a whole, through the Cabinet is accountable for allocating resources. There are a range checks and systems in place to provide assurance that they achieve value for money.

84. The principal local checks on regularity and propriety are as follows:

i. Clarity about who is accountable for resources
ii. A set of financial duties and rules
iii. Internal assurance checks by the section 151 officer of the council; and external checks by an independent auditor
iv. Transparency through publication of annual accounts and spending.

85. Councillors have to make judgements about what value for money means in local terms and where available resources need to be allocated to match what their communities need. These decisions are based on a range of information including consultation exercises and advice from officers; these decisions are made at public meetings.

86. Council, Cabinet and committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings. The council has an adopted equality policy which recognises the need to engage with different sections of the community.

87. The council has a complaints and comments system for members of the public. There is a three stage complaint system which gives divisions an opportunity to resolve a complaint at the first point of contact, but if a complainant is still unhappy they are entitled for the matter to be investigated on behalf of the chief executive. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the council's complaint system.

88. The council publishes a leaflet with its council tax demands which summarises performance and at the end of each financial year also publishes an annual report. This year the leaflet contained additional information to inform customers about the Go and UBICO projects and how information will be shared to enable the delivery of services.

89. In July 2010 the council agreed and published guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at council or the matter being considered by overview and scrutiny committee. Advice on how to submit a petition is provided on the council's website and a public participation section is being produced for inclusion in the council's constitution.

90. The council has been working with the police and county council on a neighbourhood-based approach to helping local residents tackle and resolve local problems. There are 14 neighbourhoods in Cheltenham with coordination groups that meet every 3 months to agree local priorities, councillors and officers take part in the group meetings to help co-ordinate agreed courses of action.

91. The council has a well established web site which provides access to many of its services online, including a "report it" tool which was used 285 times during the year to tell us about issues of concern. We took steps to improve the interactive nature of the website by developing systems that allow improved access to council services and information. All of the council's committee meetings have their agendas, minutes and supporting papers published on the website.

92. The council makes significant use of the social media including Facebook, twitter and You Tube in order to get across key messages and to receive feedback, staff and members are also made aware of issues that have been discussed in the media through monthly briefings and the intranet.

93. CBC was ranked 2nd in the Public Sector Customer Services Forum social media reputation index for December 2011. We've seen an increase in the number people using Twitter to contact us and ask questions and we've had some good feedback from customers about the service.

94. The Department for Communities and Local Government introduced a Code of Recommended Practice for all local authorities on Data Transparency for spending on goods and services over £500. The council complies with this Code and continues to consider additional information and data that it can publish.

95. The council published senior officer remuneration as part of its annual accounts as of the 31st October in line with government guidelines.

96. We also published information on the council's contracts and tenders register which is linked to the expenditure data.

Delivery of services and outcomes through third parties

97. In September 2010 the council considered an options appraisals for the future delivery of environment services which indicated that the formation of a Local Authority Company (LAC) involving a partnership between Cheltenham Borough Council (CBC) Cotswold District Council CDC) and Tewkesbury Borough Council (TBC) would be the most viable and effective means by which to deliver their services. It would also provide the first step towards achieving joined up waste services across Gloucestershire. In March 2011 elected Members of TBC decided against joining the LAC at that time, CBC and CDC agreed to continue.

98. In June 2011 Members of CBC and CDC approved the formation of a LAC called UBICO Ltd. Tewkesbury Borough Council asked to re-join the partnership from April 2013 (which was approved by the Board) and there is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within the wider partnership area. CBC went live on 1st April with relevant staff transferring to the LAC via TUPE. In August 2012 CDC will also go live with relevant CDC & SITA UK staff transferring to the LAC via TUPE.

99. The council delivers its housing management responsibilities through Cheltenham Borough Homes (CBH) an arms length management organisation and wholly owned company of the council. CBH has its own internal control procedures and arrangements which are subject to internal and external audit as well as independent inspection. Annually, Audit Cotswolds review the procedures and policies and report on the adequacy of arrangements. The company is overseen by a board of directors which includes tenants and has an audit committee.

100. A resources committee oversees CBH finances, manages HRA finances and reports to the board of directors. The board receives quarterly reports on performance. CBH has a service level agreement with the council and the management fee and level of service is agreed on an annual basis. Monthly monitoring meetings are held to discuss performance. Payroll and payments services are administered by CBC on behalf of CBH and the company shares the council's financial ledger system. CBH completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.

101. The council is a shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the companies act. There is a board of directors which monitors the company's performance and is responsible for internal control activities. The airport has a commercial director and company secretary as well as an airport director. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and to the shareholders, and are approved at the AGM in September. The council's Director of Resources or designated representative receives regular management accounts for the airport, and either he or the strategic director or their designated representative attends the monthly airport programme board meetings.

Review of effectiveness

102. Cheltenham Borough Council has responsibility under The Accounts and Audit (England) Regulations 2011 for conducting, at least annually, a review of the

effectiveness of its governance framework, including the system of internal control and the arrangements for the management of risk. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Partnership annual opinion report, and also by comments made by the external auditors and other review agencies and inspectorates.

103. The effectiveness of the governance framework draws on evidence from:

- Internal and external audit and inspection

- Statutory officers group

- Financial controls

- Risk and performance management

- Assurance statements from each division

- Legal standards

- Code of corporate governance.

104. The council approved the code of corporate governance and it established a Corporate Governance Group which oversees the review of the effectiveness of the code of corporate governance and internal control.   All directors have to complete an annual statement of assurance which outlines the key control areas to which the division should comply.

105. The Corporate Governance Group reviews the statements to identify common themes which need to be reflected in any action plan. Individual Directors are expected to take forward any specific control improvements within their own service plan.   These certificates along with evidence from other sources such as audit letters, internal audit reports, corporate controls and the code of corporate governance are reviewed by the Director of Resources, Audit Partnership Manager and the Governance, Risk and Compliance officer who identify control issues to be included in the annual governance significant issues action plan for the forthcoming year.

106. The Audit Committee considers the Annual Governance Statement as part of the statement of accounts and makes recommendations to Council regarding its approval. The audit committee are then responsible for monitoring progress against the actions taken, or proposed, to deal with significant governance issues.

107. Although internal control procedures are the responsibility of officers, major service issues, budgets and risks are discussed with the relevant Cabinet Member. There is also a Cabinet Member who has responsibility within their portfolio for corporate governance, internal audit and risk. Regular briefings are held with that Cabinet Member so that they are aware of any issues.

108. The Head of Internal Audit's Annual Opinion identified four areas as receiving 'limited' assurance opinions, which therefore presented risks to the achievement of organisational objectives in those areas. Where there remain recommendations for implementation in 2012-13 the significant governance issues table below includes details for the Corporate Governance Group to monitor.
  - Building Control Shared Service Reporting
  - Registration of Interests, Gifts and Hospitality
  - Payroll
  - Refuse and recycling stock control

Significant governance issues

The Senior Leadership Team and the Audit Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant issues action plan

Control issue and source	Action	Deadline	Lead officer
Matters identified by Internal Audit • Building Control Shared Service Reporting – August 2011	Proposed actions for meeting the requirements as set out in the Shared Service Agreement are being managed.	April 2012	Head of Building Control
• Registration of Interests, Gifts & Hospitality – October 2011	Process implemented for ensuring Registers of Interests are properly maintained A revised Employee Code of Conduct will be issued.	June 2012 July 2012	GOSS HR Operations Manager
• Payroll – January 2012	Payroll resilience issues are being managed via the GO Shared Services. Ongoing operational issues to be overseen by the GO Client Officer.	October 2012	GO Client Officer
• Refuse & recycling stock control– November 2011	Stock and procurement controls are being managed by Ubico Ltd and CBC management.	May 2012	Ubico Ltd & CBC Management
Matters identified through the Assurance Review • Compliance with Equalities Regulations	Review and revise report writing as necessary to ensure that legislative and policy requirements relating to equality are embedded within the decision making processes.	March 2013	Director of Commissioning

Control issue and source	Action	Deadline	Lead officer
• Business Continuity Testing	To review, develop and test ICT Business Continuity Plan to ensure that it is robust enough to mitigate the identified risks for the council and its partner organisations	March 2013	Director – Resources
• Safeguarding Children and Vulnerable Adults	Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and safeguarding for each appropriate post in the Council.	December 2012	Strategy and Engagement Manager

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed: On behalf of Cheltenham Borough Council

Leader of Council   Chief Executive

…………...................………………   …………………………………………
Councillor Steve Jordan   Andrew North

Interim Audit Report 2011/12

Cheltenham Borough Council

June 2012

KPMG

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Contents

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Section one
Introduction

This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2011/12 financial statements and the 2011/12 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Cheltenham Borough Council (the Council) in relation to the 2011/12 financial statements; and

- our work to support our 2011/12 value for money (VFM) conclusion up to March 2012.

Financial statements

Our External Audit Plan 2011/12, presented to you in January 2012, set out the four stages of our financial statements audit process.

Planning ▸ **Control Evaluation** ▸ **Substantive Procedures** ▸ **Completion**

During March 2012 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;

- testing of certain controls over the Council's key financial systems with the help of internal audit;

- assessment of the internal audit function; and

- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our External Audit Plan 2011/12 explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and

- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.

- Section 3 sets out our key findings from our interim audit work in relation to the 2011/12 financial statements and VFM

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two
Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Organisational and IT control environment	Your organisational control environment and IT control environment is effective overall. There is one area has been identified for improvement within the IT control environment.
Controls over key financial systems	The controls over the key financial system are generally sound. However, further work is required to assess the controls at the start of the final audit visit in July, before we finally conclude. The additional control areas will be reported in the ISA 260 report to be issued in September 2012
Review of internal audit	Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.
Accounts production and specific risk areas	The Council's overall process for the preparation of the financial statements is strong, however there will be additional resource and time constraints on the finance team as they close down the annual accounts, prepare for the audit and also manage the transition and data migration to GO and Agresso. We will follow up the recommendations in both our Interim audit report 2010/11 and ISA 260 Report 2010/11 in our ISA 260 report in September 2012 as several of recommendations were dependent on the transition to GO.
Financial resilience	Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on its use of resources. We have completed this initial risk assessment and consider that the 'Bridging the Gap'/Savings plan and the successful transition to GO are the key risks for the Council at present.
Other VFM risks	We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Section three – financial statements

Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

All aspects are positive with the exception of risk assessment processes. We have graded this at level two, due to the number of recommendations raised by Internal Audit in their review of the area.

Aspect	Assessment
Organisational structure	❸
Integrity and ethical values	❸
Philosophy and operating style	❸
Participation of those charged with governance	❸
Human resource policies and practices	❸
Risk assessment process	❷
Information systems relevant to financial reporting	❸
Communication	❸
Monitoring	❸

Key:　❶　Significant gaps in the control environment.

　　　　❷　Deficiencies in respect of individual controls.

　　　　❸　Generally sound control environment.

Section three – financial statements

IT control environment

Your IT control environment is effective overall.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations, incl. processing and backup	3
End-user computing	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

Work completed

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

This work has been complemented by our own testing of relevant controls in Aptos, Civica Open Revenues and Civica ICON carried out by our IT specialists.

We have not completed detailed system testing on Agresso at this stage as Cheltenham Borough Council had not yet migrated until after the year end. We will complete detailed testing on the data migration to Agresso and assess the strength of the control environment of Agresso during the 2012/13 audit.

Key findings

Your IT control environment remains effective overall.

This year has seen significant level of change in IT at the Council, as it is now the IT host for the GO project. This has meant that the IT team has been focussed on the this project and managing the transitions of the four Councils to Agresso.

We noted one main area for further improvement which is formalising the review of access rights to Aptos, Civica Open Revenues and Civica Icon systems. The reviews are necessary to make sure that only valid individuals have access to specific systems. The reviews are currently completed but not in a formalised manner and the results of the reviews are not recorded.

The full recommendation is included in Appendix 1.

Controls over key financial systems

The controls over the key financial system that were selected for testing were found to be generally sound.

However, there are some known weaknesses in payroll controls that should be rectified with the transition to GO.

We will need to complete a further review of internal audit working papers and control testing at the start of the final audit visit before assessing the level of substantive work required at year-end.

Work completed

We work with your internal auditors to update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthrough tests for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework helps us to plan the amount and depth of the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the key financial systems are generally sound but we have agreed with the weaknesses identified by Internal Audit and will do more substantive testing at our year end audit visit.

The main weakness identified was in respect of payroll, where internal audit has issued a 'Limited assurance' audit opinion.

We have not yet assessed the controls over benefits expenditure and grant income where we are waiting for the internal audit reports. We have also not yet assessed the controls over capital expenditure, asset disposals, asset valuations and reserves as many of the key controls in these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

System	Assessment
Financial reporting	3
Housing rents income	2
Council tax income	3
Business rates income	3
Payroll expenditure	1
Benefits expenditure	TBC
Cash	2
Treasury management	3
Capital expenditure	TBC
Asset disposals	TBC
Asset valuations	TBC
IAS 19 pension	3
Reserves	TBC

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.
TBC To be confirmed at final audit visit

Section three – financial statements

Review of internal audit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government.*

Work completed

We work with your internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Internal Audit have been under resource pressures as a result of the GO transitions and increased work loads. Internal Audit have completed the work agreed through our External & Internal audit Joint Working Protocol, but we have delayed the completion of some audit tests to enable internal audit to finalise their reports.

Key findings

Internal Audit completed a self-assessment against the Code in June 2011. We reviewed their self-assessment and evidence to support it. We have updated our assessment based on that review and our knowledge through our work during 2011/12.

Based on our assessment, internal audit fully complies with the Code.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Aspect	Assessment
Scope of internal audit	③
Independence	③
Ethics for internal auditors	③
Audit Committee	③
Relationships with management, other auditors and other review bodies	③
Staffing, training and development	③
Audit strategy and planning	③
Undertaking audit work	③
Audit strategy and planning	③
Due professional care	③
Reporting	③

Key:
❶ Non-compliance with the standard.
❷ Areas for improvement.
❸ Full compliance with the standard.

Section three – financial statements

Accounts production process

The Council's overall process for the preparation of the financial statements is adequate.

The Council will have the additional resource challenges of managing the GO transition whilst preparing for the audit.

Work completed

We managed our interim audit taking account of the demands of the GO project on both the finance team and the IT department. In some cases this involved delaying testing until the Final audit in July, to ensure that the audit did not interrupt the user acceptance testing.

We continued to meet with senior officers on a regular basis to support them during the financial year.

As part of our interim work we specifically reviewed the Council's progress in addressing the recommendations in our *ISA 260 Report 2010/11*.

The Council has a good history of managing the year end close down process and we do not anticipate any change to it this year. However, this year there will be an additional challenge for the finance team which will be to manage the transition to Agresso at the same time as closing down the annual accounts and preparing for the audit.

We issued only one recommendation in our *ISA 260 Report 2010/11* relating to the financial statements, which was in respect of lack of evidence of review of journals. It was agreed that as the current Council's finance team are strong and have a proven track record, then this recommendation would be implemented once GO had become fully operational.

There were no high level recommendations issued during the 2010/11 audit.

Key findings

Issue	Progress
Issue – Lack of evidence of review of journals	In 2011/12 it is agreed that all Journals exceeding £100,000 should be countersigned by the Head of Financial Services or the Director of Resources but this will be completed after 1 April 2012 following the transition to GO.

Section three – financial statements

Specific risk areas and VFM audit approach

The Council has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our External *Audit Plan 2011/12*, presented to you in December 2011, we identified the key risks affecting the Council's 2011/12 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the finance team as part of our meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The key risks identified in the plan included:

- the Council's Saving Plans
- Code change which includes the requirement to account for Heritage Assets,
- The GO project and potential risks to the control environment and pressures of the Finance and IT teams, together with the risks of asset valuation
- Property sales
- Icelandic Banks update
- Costs relating to the former managing director

These risks were considered during the interim audit visit and will be the focus of work during the year end audit visit in July to ensure that the risks are monitored and addressed throughout the audit process. Our findings will be reported to you in September.

VFM audit approach

Our External *Audit Plan 2011/12* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2011/12 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Council, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

During the interim audit visit we completed the audit risk assessment for the VFM audit approach. The key risks for the Council is the achievement of the Savings Plan and going live with GO.

We have begun to collect audit evidence but will complete the VFM audit work during the final audit visit and will be reported to you in September.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	❷	**No formal review of access has been performed on Aptos, Civica ICON and Civica Open Revenues systems** The control and review of access to computer systems is important to ensure that the access remains appropriate to job description of the member of staff and that segregation of duties is maintained. Although reviews are being completed, the reviews appear to be on an adhoc basis and the results of review are not formally documented. We acknowledge that since the recommendation was raised, the Council has transitioned to GO and the Agresso system, but we consider that it is important that this control should also be in place within this new environment.	User roles and access control are an instrumental element of the Agresso system. They are currently being maintained by the GO Programme Office although this will transfer to the ICT Support and Hosting Centre of Excellence once all partner sites are 'live' on the new system. Processes for new starters and leavers are in place. No formal review of access to Aptos is planned as the system will become a 'read-only' system from September 2012 with access limited to staff within GO Shared Services. **Responsible officer**: Paul Jones **Due date**: October 2012

Appendix 2

Follow-up of prior year recommendations

As a result of change in the accounting system and transition to GO on 1 April 2012, all recommendations for 2010/11 will be followed up during our July audit visit and reported in September in the ISA 260 report. As several of the recommendations were waiting for the transition to Agresso and GO to be implemented

Number of recommendations that were:	
Included in original Interim report 2010/11	5
Included in ISA 260 report 2010/11	3
Total - to be followed up by audit in final audit visit in July 2012	8

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Agenda Item 10

Audit Committee 2012-2013 work plan

Item	Officer
20 June 2012	
Chairs briefing: 23 May 2012	**Compete reports by:** 08 June 2012
New member training session	5-6pm
Interim audit report for 2012-13	KPMG
Internal audit opinion for 2011-12	Rob Milford
Internal audit monitoring report	Rob Milford
GO Shared Services – post implementation update	Jenny Poole
Annual Governance Statement – approve	Bryan Parsons
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
	Rob Milford
19 September 2012	
Chairs briefing: w/c 06 or 13 August 12	**Complete reports by:** 7 September 2012
Audit highlights memorandum (ISA 260)	KPMG
Internal audit monitoring report	Rob Milford
Review of annual statement of accounts	CBC Finance Team
The Regulation of Investigatory Powers and The Protection of Freedoms Bill	Bryan Parsons
Future external audit proposals – government response to consultation (briefing for information only)	Rob Milford
9 January 2013	
Chairs briefing: w/c 19 or 26 November 12	**Complete reports by:** Poss 21 December 2012 (earlier to avoid Xmas?)
Annual audit fee letter for 2012-13	KPMG
Annual audit plan for 2013-14	KPMG
Internal audit monitoring report	Rob Milford

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Audit Committee 2012-2013 work plan

Item	Officer
Annual governance statement – significant issues action plan	Bryan Parsons
20 March 2013	
Chairs briefing: w/c 04 or 11 February 2013	**Complete reports by:** 08 March 2013
Certification of grants and returns for 2012-13	KPMG
Annual internal audit plan for the 2013-14	Rob Milford
Internal audit monitoring report	Rob Milford
Annual review of risk management policy	Bryan Parsons
Annual governance statement	Bryan Parsons
19 June 2013	
Chairs briefing: w/c 06 or 13 May 2013	**Complete reports by:** 07 June 2013
Interim audit report for 2013-14	KPMG
Internal audit opinion for 2012-13	Rob Milford
Internal audit monitoring report	Rob Milford

Items to be added at a future date	
Corporate Strategy 2012/13 – consideration of governance issue	Rob Milford
Joint training session with Cotswold and West Oxford councillors?	Rob Milford / Mark Sheldon

Annual Items (standing items to be added to the work plan each year)	
January	Annual audit fee letter (for the previous year)	KPMG
	Annual audit plan (for the upcoming year)	KPMG
	Internal audit monitoring report	Rob Milford
	Annual governance statement – significant issues action plan	Bryan Parsons
March	Certification of grants and returns (for the previous year)	KPMG
	Annual internal audit plan (for the upcoming year)	Rob Milford

Audit Committee 2012-2013 work plan

	Item	Officer
	Internal audit monitoring report	Rob Milford
	Annual review of risk management policy	Bryan Parsons
	Annual governance statement	Bryan Parsons
June	Interim audit report (for current year)	KPMG
	Internal audit opinion (for the previous year)	Rob Milford
	Internal audit monitoring report	Rob Milford
September	Audit highlights memorandum (ISA 260)	KPMG
	Internal audit monitoring report	Rob Milford
	Review of annual statement of accounts	CBC Finance Team

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Agenda Annex

Briefing Notes

Corporate Governance Group

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

1.   Why has this come to Audit Committee?

1.1   To update the Committee on the work of the Corporate Governance Group (CGG).

2.   Summary

2.1   The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The AGS includes a Significant Issues Action Plan (SIAP); this is approved by the Audit Committee and indicates how the council is complying with the code of corporate governance including internal control arrangements. The audit committee need to satisfy itself that the AGS fairly reflects the arrangements within the council.

2.2   The CGG which is chaired by the Chief Executive and routinely meets to;

- monitor and challenge the internal controls (Annual Certificates of Assurance checklist),
- monitor progress against any recommendations that arise from external audit assessments,
- consider progress against the SIAP; and
- monitor the risk management procedures.

The minutes of the CGG since the last the last Audit Committee are being provided to the Audit Committee so that they will have a more informed view of the issues when the AGS is presented to it for approval.

3.   Conclusion

The CGG have agreed terms of reference and considers information from a range of internal control sources and assurance checks. These issues and the outcomes from the checks are placed within appropriate action plans, discussed and monitored. The CGG would welcome any comment or input from the audit committee on progress against the action plan or items recorded within the CGG minutes.

4.   Summary of supporting information

Appendix minutes of the Corporate Governance Group meetings on the 17th May 2012

Further information

4.1   If you require any further information on any of these issues please contact;

Corporate Governance, Risk and Compliance officer on 01242 264189 or email;

bryan.parsons@cheltenham.gov.uk

Corporate Governance Group
Notes
17th May 2012
11.00am Room 325

Item	Subject	Action point
1	Apologies Jane Griffiths, Present Andrew North, Mark Sheldon, Sarah Freckleton, Julie McCarthy Bryan Parsons	
2	(April meeting cancelled due to leave and illness) Notes from meeting held 26th January 2012	agreed
3	CBC governance framework/roles and responsibilities – workshop session RM briefed the group on the emerging issues relating to roles and responsibilities for staff and elected Members involved in partnership working. It was agreed that Internal Audit should consider this in more detail and discus any policy issues with Onelegal.	RM to circulate the slides
4	2011/12 Annual Governance Statement and Significant Issues Action Plan The draft Annual Governance Statement was considered along with the Significant Issues Action Plan. It was agreed that the AGS was a good reflection on the issues relating to governance and internal control that the council had dealt with during the last 12 months. It was suggested that additional detail be put on the issues identified within the action plan and that Onelegal should consider the wording before Audit Committee	RM to update Action Plan BP to circulate to Onelegal and others for comment
5	JM briefed the group on the amendments made to the Code of Conduct for Employees particularly in relation to the Registration of Interest, gifts and hospitality (staff). It was agreed that the amendments should be included and circulated to staff asap.	JM To make the amendments and circulate via Service manager Group and Intranet.
6	The appointment of KPMG as our internal external auditors was noted and that the Go partnership was considering a submission to the Audit Commission for the same auditor to be appointed to all the partnership authorities.	
8	The Induction programme for councillors following the election was discussed and noted and the programme for the Audit Committee was agreed.	BP to Contact KPMG
9	Any confidential risk that requires a review	None
10	AOB	None
11	Date of next meeting 26 July 2012 Cambray room.	