

AuditCotswolds



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



CHELTENHAM
BOROUGH COUNCIL

ANNUAL INTERNAL AUDIT OPINION

Cheltenham Borough Council

Annual Internal Audit Opinion 2013-14

Introduction

In April 2012 Cheltenham Borough Council and West Oxfordshire District Council delegated their Internal Audit services to Cotswold District Council. This partnership is 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 Public Sector Internal Audit Standards,
- 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 is the work undertaken during the year, this is detailed within Appendix 1(i). There were matters arising from the work during the year that are deemed a significant control weakness by a 'limited assurance' opinion, and others that have been drawn

to our attention, control issues relate to those areas below with a fuller explanation of each area of concern being given in my annual assurance opinion;

- Car parking – Regents Arcade
- PSN Network submission
- Art Gallery and Museum – budget position

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 changes in the internal audit standards, this assessment for 2013-14 has been made in respect of the new Public Sector Internal Audit Standards (PSIAS) which apply from 1 April 2013. An assessment regarding adherence to the new standards was reported to the Audit Partnership Board and to the Audit Committee in June 2013.

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 adopted on the 1st April 2012 as part of the Section 101 Agreement. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness.

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

- The Head of Internal Audit 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.

During 2013/14 the Head of Internal Audit has experienced periods of absence due to ill-health and this has resulted in increased responsibility for quality being accepted by Principal Auditors. As this matter continues, at 31 March 2014 an interim Head of Internal Audit has been appointed to lead the assurance service during the opening months of 2014/15.

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 Audit Cotswolds provides 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.

Audit Cotswolds has an Audit Charter and works 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 2013-14 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 2013-14 of unplanned work includes:

Resourcing

The internal audit service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2013-14 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (CMIIA/PIIA)
- Chartered Management Institute (CMI)
- Chartered Institute of Management Accountants (CIMA)
- Association of Chartered Certified Accountants (ACCA)
- 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.

Audit Cotswolds has provided audit assurance to the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

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 PSIAS 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

- A member of the team is in their final year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification.

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

Head of Internal Audit (Audit Cotswolds)

AuditCotswolds
The logo for Audit Cotswolds features the company name in a bold, sans-serif font. A green wavy line is positioned below the text, starting under 'Audit' and ending under 'Cotswolds'.

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Head of Audit Cotswolds & Head of Internal AuditOpinion on the effectiveness of the system of Internal Control for the year ended 31 March 2014**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 Grant Thornton

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

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

A table of internal audit work in 2013-14 is detailed in **Appendix (i)**

This has again been an extraordinary year for change in this authority and it is likely that this position will remain in the foreseeable future. The control environment within key financial systems has undergone significant changes and that of other front line services continues to develop. 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 management arrangements, which is supported by agreed action plans, some following internal audit reviews.

During 2013/14 there were areas where a 'Limited Assurance' opinion was deemed appropriate or that showed a significant risk in control or governance that warrants further detail in this report:

- PSN Submission 2013 – significant concerns were raised by the HM Cabinet Office following the submission in June 2013 resulting in the need to produce further evidence to demonstrate effective governance and control of arrangements relating to the provision of IT services. Follow up work by internal audit has provided assurance that appropriate actions have been taken to resolve issues with remaining risks relating to the failure of the submission having been appropriately dealt with, some of which remain outstanding at 31 May 2014 and may need to be resolved prior to submission of the next PSN in June 2014.
- Car Parks Audit – a review of arrangements for car parking at Regents Arcade has identified issues regarding the implementation and management of new systems based on vehicle recognition software. It has been identified that the Council may be experiencing a loss of revenue under the current arrangements and this will be subject to further internal audit work in early 2014/15 to identify the extent of the potential problem.

Additionally we are aware that:

- Art Gallery and Museum – a report has been commissioned from Grant Thornton regarding over-spending in this area in 2013/14 regarding which feedback is anticipated to be received in June 2014.

In 2013/14 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 finalised audit reports were provided for Audit Committee as summaries.

For 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 review and 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 (Grant Thornton) – various reviews
- Internal Audit at Forest of Dean with regards to the GO Shared Services

Other assessments considered

- The annual 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

Head of Internal Audit (Audit Cotswolds)



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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	Governance Compliance - RIPA Policy & Compliance	Advice report	Final	Assurance
2	Annual Governance Statement (AGS)	Draft -Validation of the AGS	Draft	Assurance
3	Performance Management	Deferred		
4	Change Programme & VFM Leisure and Culture Trust	N/A	On-going	Consultancy
5	Cash Receipting and Cash Handling	Satisfactory	Final	Assurance
6	PSN review – replaced ICT audit	Satisfactory progress made but subject to on-going review	Final	Assurance & Consultancy
7	Council Tax	Satisfactory	Draft	Assurance
8	NNDR	Satisfactory	Draft	Assurance
9	Housing Benefits	High	Final	Assurance
10	ICT shared service	See no.6		
11	Financial Audits			
12	Services provided by GOSS <ul style="list-style-type: none"> • Payroll • Main Accounting (Including Bank Reconciliation) • Treasury Management • Budgetary Control and Capital Accounting • Accounts Receivable • Accounts Payable (Assurance from SWAP – FoDDC Internal Auditors) 	Satisfactory Satisfactory High High Satisfactory Satisfactory	Draft Final Final Final Draft Final	Assurance
13	Financial processes falling within the Council's control (e.g. transaction control) <ul style="list-style-type: none"> • Payroll • Main Accounting (Including Bank Reconciliation) • Treasury Management • Budgetary Control and Capital Accounting • Accounts Receivable (AR) • Accounts Payable 	Anticipated to be High/Satisfactory	Draft report to be issued on completion of AR detailed audit testing	Assurance
14	Bridging the Gap	High	Final	Assurance
15	Transparency agenda	High	Draft	Assurance
16	Ubico Ltd Service Delivery	Satisfactory	Final	Assurance
17	Business Continuity (ICT arrangements) linked to PSN	See no.6		
18	Commissioning - Leisure & Culture Project (Commissioning / Trust Development)	N/A	On-going	Consultancy
19	Grants	Satisfactory	Draft	Assurance
20	Community Safety - Play area enhancement	High	Final	Assurance

21	Information Management	See no.6		
22	Health & Safety	Interim Advice Memo	Final	Assurance
23	Property Maintenance Programme	Satisfactory	Draft	Assurance
24	Car Parking Services	Limited	Final	Assurance
25	PSN SWG	N/A	On-going	Consultancy

End.

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