



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



INTERNAL AUDIT REPORT
Cheltenham Borough Council

Annual Internal Audit Opinion 2014-15

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 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.

In 2014-15 the Audit Cotswold partnership was restructured. The restructure was, in part, informed by an external review of our compliance with the new CIPFA Public Sector Internal Audit Standards. The restructure has now enabled the partnership to demonstrate compliance with the new standards.

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 Audit Partnership Board members are the S151 Officers and act as our client officers to ensure quality of service.

The second stage relates to specific audit review work. There is a robust quality assurance process 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.
- New Manager positions in the structure 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

During the year we received feedback from the S151 Officer stating:

“The Audit Partnership was one of the early shared services created between councils in Gloucestershire and was initially set up to deliver an improved service, provide better resilience and savings in response to funding pressures.

The partnership has gone from strength to strength and has had to develop quickly in response to the rapid changes in the way in which our councils now do business. As neighbouring councils, we have created a number of shared services, wholly owned companies and independent Trusts which have considerably changed the nature of the audit support required.

The Partnership has responded admirably to this very different environment and has adapted its business model to one of a flexible service which covers a range of clients with different needs. It continues to be very forward thinking and plays a key role in shaping our future thinking around further, even more innovative, partnership working.

Mark Sheldon. Director of Resources (Section 151 Officer) – Cheltenham Borough Council.”

Developing the Internal Audit planning process

The Audit Plan for 2014-15 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 2014-15 of unplanned work include the investigation into the Art Gallery and Museum project.

Resourcing

The service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2014-15 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)
- Association of Accounting Technicians (AAT)
- Association of Chartered Certified Accountants (ACCA)

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 the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

There is within the new structure the ability for the partnership to call on specialist consultants if necessary. The service also has the ability to agree “extraordinary work”, whereby the client can request us to undertake specific work outside of the agreed annual audit plan. This is funded by agreement with the client.

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
- One member of the team completed their second year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification. They also gained the CMIIA designation
- Attendance and presentation to the Institute of Internal Auditors International Conference July 2014
- One member of the team is two years into a PhD on Shared Service Governance in Local Authorities

Looking forward

The past year has seen the establishment of multiple shared service models which require different internal audit skills. Therefore the training programme has focused on expanding the skills necessary to engage in the different roles required for the different shared services. 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 MA PGDip CMgr FCMI CMIIA MMS

Head of Audit Cotswolds (Head of Internal Audit)



Cheltenham Borough Council

Cheltenham Borough Council

Audit Partnership Manager & Head of Internal AuditOpinion on the effectiveness of the system of Internal Control for the year ended 31 March 2015**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 Public Sector Internal Audit Standards, 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
4. The Grant Thornton report on the Art Gallery and Museum project

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 2014-15 is detailed in **Appendix (i)**

This has been an extraordinary year for change in this authority. The control environment within key financial systems has undergone significant changes and that of other front line services such as refuse collection. 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, following internal audit reviews.

There were several areas where a 'Limited Assurance' opinion was deemed appropriate or that showed a significant change in governance that warrants further detail in this report:

- The Art Gallery and Museum project was found to be significantly overspent and resulted in the CEO requesting a review to be undertaken by Grant Thornton. This review was presented to the Audit Committee in January 2015. The report outlined a series of recommendations to improve the control system. A further review was then requested by the Audit Committee for Audit Cotswolds to investigate the 'why' element of the Art Gallery and Museum issue i.e. why did it happen. This work is still on-going. Therefore only the results of the Grant Thornton report have influenced my opinion.
- The establishment of The Cheltenham Trust (TCT) was also completed within the 2014-15 year. Audit Cotswolds provided support to the change programme that developed the trust. This included performing such roles as: independent chair for gateway reviews at key milestones and providing independent on-going advice to the programme team. The TCT went 'live' on the 1st October 2014 and as such, my opinion only considers the control framework up to this date as the TCT became a separate entity from that point forward. On-going internal audit reviews will now be focused to the systems Cheltenham BC has in place to ensure the TCT delivers on the agreed outcomes for Cheltenham BC.

In 2014-15 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 (Grant Thornton) – various reviews
- Internal Audit at Forest of Dean with regards to the GO Shared Services

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 MA PGDip CMgr FCMI CMIIA MMS

Head of Audit Cotswolds (Head of Internal Audit)

AuditCotswolds


Cheltenham Borough Council

Table of internal audit work in 2014-15

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	
Core Audit Areas				
Annual Governance Statement	Validation report	Final	Assurance	
Performance Management	On-going		Assurance	
Risk Management – reallocated to other risk works (AG&M)	N/A	Reallocated		
Governance Compliance – Members Allowances	On-going		Assurance	
ICT Review - reliance on PSN/JSWG for 2014~15	N/A	Final	Consultancy	
Housing and Council Tax Benefits	satisfactory	Final	Assurance	
Council Tax	satisfactory	Final	Assurance	
National Non Domestic Rates	satisfactory	Final	Assurance	
<i>GO Shared Services (GO Module Audits and Client Testing)</i>				
- Budgetary Control and Capital Accounting	High	Final	Assurance	
- Treasury Management	High	Final	Assurance	
- Bank Reconciliations	satisfactory	Final	Assurance	
- Main Accounting	High	Final	Assurance	
- Payroll	satisfactory	Final	Assurance	
- Accounts Payable	Satisfactory	Final	Assurance	
- Accounts Receivable	High	Final	Assurance	
Other Risk Based Work 2014/15				
Change Management – Cheltenham Trust	N/A	Final	Consultancy	
Change Management - 2020 Vision	N/A	On-going	Consultancy	
Change Management - REST project	N/A	On-going	Consultancy	
Payment Channels and Income Streams	satisfactory	Final	Assurance	
Environmental Audit	N/A	Final	Consultancy	
Data Protection and Control of Data	On-going			
Transparency Agenda (follow up)	N/A	Final	Assurance	
Social Networking	On-going			
Housing – Disabled Facilities Grants	satisfactory	Final	Assurance	
Car Parking (Follow-up)	satisfactory	Final	Assurance	
AGM review – new work at CEO request	On-going		Assurance	
Entertainments	N/A	Final	Consultancy	
Miscellaneous Advice	N/A	On-going	Consultancy	

