

Cheltenham Borough Council
Audit Committee – 13 January 2016
Internal Audit Monitoring Report

Accountable member	Cabinet Member Corporate Services, Councillor Jon Walklett
Accountable officer	Head of Audit Cotswolds, Robert Milford
Ward(s) affected	All
Key/Significant Decision	No
Executive summary	<p>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 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.</p> <p>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.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p>None specifically arising from the recommendation</p> <p>Contact officer: Sarah Didcote, sarah.didcote@cheltenham.gov.uk, 01242 264125</p>
Legal implications	<p>None specifically arising from the recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@teWKesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>None specifically arising from the recommendation</p> <p>Contact officer: Julie McCarthy 01242 264355 Julie McCarthy @cheltenham.gov.uk,</p>
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	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an 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 and Ireland).</i></p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	<p>Relevant to particular audit assignments and will be identified within <i>individual reports.</i></p>
Property/Asset Implications	<p>None specifically arising from the recommendation</p> <p>Contact officer: David Roberts@cheltenham.gov.uk</p>

1. Background

- 1.1 The Annual Audit Plan 2015/16 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Senior Leadership Team and supported by such systems as the risk registers. The role and responsibilities of internal audit reflect that it is there to help the organisation to achieve its 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 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 benefit to supporting the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 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 Shared Services impacting on core financial systems and shared services generally impacting on core governance arrangements.
- 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 keep to a more flexible and risk based plan.
- 2.3 It should also be recognised that the service is a partnership, so co-ordinating 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 is continuing to review its operational procedures and processes to ensure they align with the Public Sector Internal Audit Standards (PSIAS).

3.2 Background

Below summarises some of Internal Audit's work in progress to date:

Core Governance

Fieldwork on Governance Compliance has been completed, the report is being drafted.

The audits on Performance Management and Ubico Client Function are progressing.

Core Financials

Council Tax, NNDR, Benefits (across three councils) – work has started on year 2 of the 3 year programme and will include the implementation status of recommendations agreed in the previous audits. The scope of the audit work includes: collection, recovery, financial reconciliations, payments, overpayments, payment plans and write-offs.

GOSS audits – testing has been concluded on Main Accounting, Treasury Management and Bank Reconciliations. The Draft reports are with Internal Audit Management for review.

Transactional testing for Accounts Payable has been completed and a draft report has been issued to GOSS Management Team. Testing is in progress for Accounts Receivable & Payroll.

Memos for the GOSS HR audits have been issued to HR Management for review and consideration.

Risk Based

Contract Management – fieldwork has been completed. The Draft report is being compiled.

- 3.3** Audit Cotswolds, as a service, is in the process of updating the audit management software and data analytical tools used by the service. The implementation of audit management software will allow us to sequence and control individual audits across multiple partners and clients. Fundamentally, when implemented, this will be a management efficiency aid for the Department. Data analytics tools will enable us to test complete data sets/transactions, rather than sample testing, giving a more robust opinion. Tender documents for the procurement of the new software have been finalised and published.

Progress against the 2015/16 audit plan is set out in **Appendix 1**. The table below summarises the work brought forward from 2014/15, updated on it's progress.

Audit	Report status
Performance Management	Draft report issued - currently with Head of Internal Audit
Governance Compliance – Members Allowances	Final
Data Protection & Control of Data	Draft report issued – waiting for Management response
Payment Channels and Income Streams	Final
Social Media	Draft report issued – waiting for Management response

- 3.7** Executive summaries of Audits finalised in can be found in **Appendix 2**
- 3.8** The assurance levels are set out in **Appendix 3**
- 3.9** The Counter Fraud update is in **Appendix 4**

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Appendices	<ol style="list-style-type: none">1. Audit Plan Progress2. Executive Summaries3. Assurance levels4. Counter Fraud Update

Appendix 1

Subject	Outline	Status
CORE GOVERNANCE		
Annual Governance Statement	Support and review of the AGS	Complete
Risk Management	Review of the training for service managers	Q4
Performance Management	Focus on performance of projects and programmes and in particular the role and responsibilities of SLT and Cabinet.	In progress
Governance Compliance	HR policy application by service managers: <ul style="list-style-type: none"> • Recruitment & Selection including induction • Capability, Grievance and Disciplinary • Training schemes 	Fieldwork complete – Draft Report in progress
ICT	Application audits Shared service support and review	
CORE FINANCIALS		
NNDR	Year 2 module of 3 year programme	In progress
Benefits	Year 2 module of 3 year programme	In progress
Council Tax	Year 2 module of 3 year programme	In progress
GOSS	Separate plan but encompasses Finance, Payroll aspects delivered by GOSS	In progress
GOSS - HR	Review on: <ul style="list-style-type: none"> • Absence Recording • Staff Allowances • Shared Services Allowances • Job Evaluation Process 	Draft Memos issued – waiting for Management Response
GOSS – Procurement, Insurance, Health & Safety		Q4
RISK BASED		
Ubico Client Function	Follow-up to the 2013 audit review with the addition of an examination of client side cost covering client services provided by	In progress

	Gloucestershire Waste Partnership	
Business Continuity Management	Overall plans, service plans and service manager engagement	Q4
Accommodation strategy and property management	Review of strategy and property management	Q4
Security	Review of buildings and personnel security	Q4
Audit Committee Effectiveness	Review of Audit Committee against appropriate guidance and standards	Q4
Contract management	Review of key contracts including tender processes Plus review of contractor use	Fieldwork complete – Draft Report in progress
Task force review	Review of processes and procedures used in the Cheltenham Development Taskforce project	Q4
Safeguarding Adults and Children	Support the Safeguarding peer review and audit	Q4
CONSULTANCY		
REST project support	Support and ongoing advice regarding the REST project	On-going
20:20 vision	Support and ongoing advice regarding the 20:20 project	On-going
Other change projects	Support for other projects	N/A
Other Audit Work		
Management	Audit Committee, governance and risk groups, high level programmes, etc	N/A
Follow-ups	Assessment of recommendation implementation	N/A
Contingency	7% operational contingency	N/A

Executive Summary for Payment Channels & Income Streams

Assurance

Limited

Overview and Key Findings

This review of Payment Channels and Income Streams was undertaken part of the 2014/15 Audit Plan approved by Audit Committee in April 2014. The focus of the audit was;

Undertaking analysis of payment and income streams in relation to a specified number of service areas and determine whether any further effective audit work can be undertaken.

Undertaking additional audit review work to determine that these areas where substantial risks exist are well controlled. For income focus particularly on the existence of effective and timely reconciliations.

Analysis of income streams and payment channels was undertaken. We identified four service areas to review further and focus on income; We did not identify any payment channels that required additional review. We carried out additional work at the Cemetery and Crematorium, Shopmobility, Planning and Green Space-Allotments. Recommendations from the previous Cash Receipting Audit (2012/13) have also been followed up and included in this report where appropriate.

Financial Rule 15.1 states that budget holders are responsible for:

Reconciling income systems with the council's main accounting system monthly to ensure that all income received has reached the correct budget head and investigating where there is a discrepancy.

Agresso Business World (ABW) was implemented at Cheltenham Borough Council in 2012 as the Council's Main Accounting System. Training workshops were run for staff to address any specific training needs and subsequently, standard enquiry report templates were introduced to aid budget holders. However, this review has confirmed that in some service areas monthly reconciliations are not being carried out. Recommendations have been made to the budget holders / service areas in respect of performing monthly reconciliations between the business system and the general ledger. Monthly reconciliations will ensure compliance with the financial rules. Budget Holders will be able to identify whether income has been accurately posted in the ledger, any mis-postings will be easily identifiable and corrections made in a timely manner, these processes will also aid budget monitoring.

To further improve the control environment, recommendations have been agreed with management relating to:

Assess the feasibility of receipting payments via Civica at the Cemetery and Crematorium.

Consider the possibility of accepting card payments at Shopmobility.

To increase efficiency, consider receipting all payments for planning applications in the cash hall.

Based on the work completed we have concluded that the overall system of controls in respect of receipting income and security of cash is satisfactory however, monthly reconciliations to the general ledger are not being carried out which is a breach of the Financial rules, therefore we offer an overall limited assurance opinion. There are a number of other minor improvements that if implemented would strengthen the overall control environment.

Management Response:

There are a number of actions which remain outstanding from the 2012/13 Cash Receipting audit

which are of concern. Executive Board will ensure that the actions arising from this report are actioned in accordance with the timeframes documented within this update report.

Mark Sheldon
8 December 2015

Executive Summary for Members Allowances

Assurance

Satisfactory

Overview and Key Findings

1. Introduction and Purpose of Review

The objective of this audit was to provide assurance over the system of control in place for Members Allowances and expenses paid by Cheltenham Borough Council. This audit was carried out in accordance with the internal audit plan 2014/2015. Expenditure in relation to allowances and expenses for 2014/2015 was £316,018.50. Our work has identified certain areas of control weakness, therefore we have suggested recommendations to strengthen the overall control environment.

2. Background

Local Authorities can pay allowances and expenses to Members in respect of duties which they carry out in their capacity as a Member of the Council. The Democratic Services Department are responsible for the operation of these allowances and expenses, which are regulated and prepared in accordance with 'Local Authorities (Members Allowances) (England) Regulations 2003'.

Members receive a basic allowance and those with additional duties are entitled to a special responsibility allowance. Allowances are set and reviewed by an Independent Remuneration Panel which produces a report containing recommendations. The claiming of allowances and expenses by individual Members is discretionary and individuals may opt not to receive payment or to receive reduced payments.

3. Overall Observations and Key Findings

We found internal controls present within the administration of Members Allowances and claims. There were however elements of non-compliance with Council Rules which increase the risk profile and weaken the internal control framework.

Implementation of the recommendations made within this report will strengthen the overall risk management arrangements covering the Members Allowances, Claims and Expenses processes.

The following high priority observations have been made:

- In accordance with Council's Financial Rules (last updated and agreed by Cabinet in June 2013), Members must provide VAT receipts to support all mileage and expense claims.
- Claims should be made on a regular basis (quarterly as a minimum). The Members Allowance Scheme should also be updated to reflect this requirement.

Recommendations have also been made covering linked to the following areas:

- Increased verification of Member expense claims (in line with the Council's Financial Rules) and facilitation of an audit trail and timeline of claims.
- Refresher training for Members on allowances and claims at a suitable frequency.
- Additional specifics for the Member expense claim process to be proposed to the Independent Remuneration Panel.

4. Conclusion

Based on testing completed, we offer an audit assurance opinion level of Satisfactory Assurance - The system of expected control although sound, there are opportunities for improvement to further reduce system objective risks. The implementation of recommended actions within this report will increase the assurance level of the Council's risk management and control of Members Allowances.

5. Management Response

We are very pleased that the review found that the Members Allowances Scheme was being prepared and administered in line with the regulations and that the information published on the Council's website was clear and detailed. There were no required actions relating to the payment of Members Allowances and we think this is evidence of the improvements we have made to the process and the information published on our website over the last few years. This has enabled us to satisfy frequent FOI requests on this matter by referring any enquiries to the website.

We have updated the Members Travel form, guidance notes and procedures to accommodate the additional risks identified in this report and will communicate any additional requirements and changes to Members. We have also created a set of procedures so that in future any member of the Democratic Services team can deal with expense claims (the procedure includes the need for VAT receipts where appropriate).

The Members Allowance Scheme should only be changed after being reviewed by the IRP and a recommendation then made to Council, as they are not meeting this year we will incorporate any revisions required to the scheme when the IRP next meet to carry out a full review.

Appendix 3

Assurance Levels

Assurance levels for all audits follow a standard methodology to ensure reliability and validity of Internal Audit opinion. The table below set out the rationale for the opinion and suggested management action timescales.

Assurance Level	IA Opinion – Controls	IA Opinion – Compliance
High	The system of control is sound and designed to achieve system objectives	Controls are complete, consistently applied and compliance is good
Satisfactory	The system of expected control although sound, there are opportunities for improvement to further reduce system objective risks	Compliance is generally good but there is evidence of non-compliance with some controls
Limited	The system of controls falls below expectation as weaknesses are increasing system objective risks	There is sufficient evidence of non-compliance which puts the system objectives at risk
Poor	The system of control is weak thus significantly increasing system objective risk	There is significant non-compliance with controls leaving the system vulnerable to abuse or fraud which significantly increases the system objective risks

Counter Fraud Update

CURRENT OPERATIONS

- A series of proactive feasibility fraud drives are being launched across the hub region. To enable this to happen substantial works have been undertaken on the legal framework of operational fraud investigation and prosecution. Initial pilots at Cheltenham BC have proven to be effective and exceeding targets set out in the DCLG funding document.
- Health & Safety work stream to ensure lone working policies and personal safety protocol in place. New alarm assets are being procured for the counter fraud officers.
- A new Counter Fraud Policy is under consultation across the hub. All S151 officers have seen and commented on the document and this is now progressing through corporate teams and on to the relevant committees for approval.
- Project implementation re county wide data warehouse and case management system including West Oxfordshire; with the ability to link up with Oxford City, is now well underway with formal procurement being undertaken. Recruitment of the staff for the data warehouse is also underway.
- Engagement with housing associations in the Gloucestershire region via the Gloucestershire Tenancy Fraud Forum is now well underway including the delivery of works under contract for several of them.

PROJECT DOCUMENTATION

- Project Initiation Document (PID) has been produced and presented to Gloucestershire Chief Finance Officer Group meeting in September (including plan for engagement with Oxfordshire and West Oxfordshire)
- The PID is being updated with comments received and various project roles now allocated.
- Financial forecast and models under development, with particular focus on the accounting for fraud which is an unpredictable variable.

TIMELINE

- Schedule of works for Local Authority's within the area
- The Section 101 agreement is expected to take at least 6-8 months. Section 113 agreements are being used as a temporary solution until S101 available.

PLANNED WORK STREAMS

- More structured approach and agreement with regard to fraud work for Cotswold DC and West Oxfordshire DC
- Policy and procedures are under review and alignment across Gloucestershire and Oxfordshire