

Audit Cotswolds



COTSWOLD
DISTRICT COUNCIL



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

INTERNAL AUDIT REPORT

Cheltenham Borough Council

Annual Audit Opinion 2010/11

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 A**.

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 are no matters arising from the work during the year that are deemed a significant corporate control weakness, apart from the Council's Payroll system, Enforcement Team and Business Continuity. In these areas, the risks associated with the control issues raised in the audit reports are being actively managed by the responsible Service Heads.

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 implementation of the expanded Audit Partnership occurring midway through the financial year, to which this report relates, it was deemed appropriate to rely on two assessment aspects. The first was a self assessment reported to Audit Committee in June 2010. 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. A full review against the CIPFA Code will be conducted in 2011/12.

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 APB. The APB 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 in place for all audit review work that includes the following:

- The Audit Partnership Manager 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. Although we have an Audit Charter and work to an approved annual plan, there is no directing audit strategy at this stage as the service is still embedding the partnership, with the main drivers coming from the business case objectives. However, 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. The underlying principles in relation to service delivery models and the 'internal' aspects of an internal audit service remain critical factors now that the service is delivered by a partnership.

The expansion of the audit partnership, and the restructure of the Senior Leadership Team, has resulted in the Audit Partnership Manager becoming the Head of Internal Audit for Cheltenham BC. This was originally a role delivered by the, as was, Assistant Chief Executive. This has enhanced the independence of Internal Audit and enables the Council to comply with CIPFA Code of Practice for Internal Audit (2006) and adopt the CIPFA standards for the Role of the Head of Internal Audit (2010)

Developing the Internal Audit planning process

The Audit Plan for 2010/11 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 2010/11 of unplanned work include a review of the Enforcement Team.

Resourcing

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2010/11 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. In addition to the experienced team a new Internal Auditor with an ICT specialism was recruited to the partnership, further enhancing the sustainability of the service and covering a specialised auditing role. This post will help to provide the Audit Committee with assurance over the ICT systems at the Council, noting that Cheltenham BC is hosting the ICT solution for the GO Programme.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts and opportunities for sharing of resource to undertake audit reviews common to each District Council has been explored further during the year. We have provided audit resource to the GO Programme (an Enterprise Resource Planning (ERP) system for four district authorities and Cheltenham Borough Homes Ltd) on behalf of all districts. We have continued to develop relations with colleagues at the Gloucestershire Chief Internal Auditor Group which now includes representation from West Oxfordshire 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 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.

Looking forward

The past year has seen the establishment of a new three way partnership between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 and has seen further improvement in service resilience and knowledge base. The service will be looking to consolidate and develop this three way partnership through 2011/12. This will include further development of programme assurance provision and methodologies for the commissioning approach that Cheltenham BC has adopted. 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.

Acknowledgement

We would like to take this opportunity to formally record our thanks for the cooperation and support we have received from Members, management and staff during the year.

Robert Milford DMS MA PGDip CMIIA MCMi AMS

Audit Partnership Manager & 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 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 the Public Interest Report and the ICT Audit Report provided by KPMG.

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 2010/11 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 three areas where a 'Limited Assurance' opinion was deemed appropriate.

The Payroll system and supporting ICT application were both reviewed in 2009-10. The results of both aspects resulted in a 'Limited Assurance' opinion. The reviews had looked to the GO Programme and HR shared service with Tewkesbury Borough Council to resolve key elements of weakness in the systems. However, the shared service with Tewkesbury HR did not proceed and the GO Programme will not be in place until April 2012. The payroll resilience issue is being addressed by management but due to the issues identified it has been raised in the Annual Governance Statement process. This is a routine audit area and as such will be reviewed again in 2011/12, although ongoing monitoring through the GO Programme will be undertaken.

Street Scene Enforcement - We have undertaken a review of Management Controls and Performance Effectiveness of the Enforcement Team as requested by the Head of Public Protection. The exact scope was agreed over several meetings as we gained more information about problems and departmental concerns that they have encountered. The aim of the function has been a success i.e. bringing so many service delivery responsibilities together under one enforcement group is good and some positive feedback has been received. However, an effective control environment was not established early on to control its operations. The controls were not in place to make it clear what is expected from the team, in respect of role responsibilities and quality of service delivery demanded. The management control over effective and efficient operations, including mileage expense claims, has been generally weak. Significant improvements have recently been made and/or are still to be actioned.

The final area was in relation to 'Health Check' audits requested by management. The Health Check is a reduced audit designed to test elements of a system within a confined scope. The Health Check reviews identified that Business Continuity Plans 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'.

Other significant audit activity includes the survey of Risk Management. In November 2009 a review of the Risk Management framework at Cheltenham commenced. This review was used to assess the organisation against the CIIA scale of maturity [Naïve ⇒ Aware ⇒ Defined ⇒ Managed ⇒ Enabled]. This review resulted in the initiation of a Senior Leadership Team (SLT) sponsored assessment across the organisation of the general awareness of the systems in place in the Council. This work was reinforced, in part, by the Public Interest Report published in March 2010 by KPMG (the Council's external auditors). The results of this survey were reported to Audit Committee in September 2010.

In 2010/11 audit monitoring reports were introduced 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.

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

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

Audit Partnership Manager & Head of Internal Audit

Cheltenham Borough Council

Appendix (i)

Table of internal audit work in 2010/11

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 Community Investment Grants	Satisfactory	Final	Assurance
2 Environmental and Sustainability Management	Satisfactory	Final	Assurance
3 Enforcement Team Review	Limited	Final	Assurance
4 Procurement	Satisfactory	Final	Assurance
5 Equal Pay Claims		Deferred	
6 Everyman Theatre			Assurance
7 Cemetery & Crematorium	Satisfactory	Final	Assurance
8 Waste collection & recycling			Assurance
9 Car Parks - follow-up	Satisfactory	Final	Assurance
10 KPMG Public Interest Report Follow-up	Satisfactory	Final	Assurance
11 Asset Management	Satisfactory	Final	Assurance
12 Civic Pride (Now - Cheltenham Development Task Force)	N/A	Ongoing	Consultancy
13 Depot Rationalisation	N/A	Final	Assurance
14 Resource management / capacity (Portfolio Management Project)	N/A	Ongoing	Consultancy
15 Leisure @ - follow-up	N/A		Assurance
16 Review of CBC to CBH		Deferred	
17 Commissioning	N/A	Ongoing	Consultancy
18 Gardens Gallery (Health Check)	N/A	Final	Assurance
19 Building Control shared service		Ongoing	Assurance
20 GO programme assurance (Gateway Reviews)	N/A	Ongoing	Assurance
21 Human Resources - CBC lead			Cancelled
22 ICT - review/evaluation of the bid for hosting the GO Programme	N/A	Final	Assurance
23 Revenues & Benefits inc systems thinking	N/A		Consultancy
24 Customer Services inc TIC/AG&M		Deferred	
25 Petty cash reviews		Deferred	
26 Fraud response plans	N/A	Final	Consultancy
27 GO Programme Consultancy	N/A	Ongoing	Consultancy
28 Payroll	Limited	Final	Assurance
29 General Ledger	High	Final	Assurance
30 Budgetary Control	High	Final	Assurance
31 Capital Accounting	High	Final	Assurance
32 Treasury Management	High	Final	Assurance
33 IFRS (Health Check)	N/A	Final	Assurance
34 Creditors	Satisfactory	Draft	Assurance
35 Benefits	Satisfactory	Final	Assurance
36 Council Tax	High	Final	Assurance
37 NNDR	High	Final	Assurance
38 Sundry Debtors	Satisfactory	Final	Assurance
39 Cash Receipting	Satisfactory	Final	Assurance
40 Bank Reconciliation	High	Final	Assurance
41 AGS review	N/A	Final	Assurance
42 Performance Management inc data quality	Satisfactory	Final	Assurance
43 Risk Management - survey	N/A	Final	Assurance

44	Governance - Compliance - note new management structures			
45	Change Programme(s)	N/A	Ongoing	Consultancy
46	Business Continuity Management (Health Check)	Limited	Final	Assurance
47	Investigations	N/A	Final	
48	Corporate Governance Group	N/A	Ongoing	Consultancy
49	Town Hall Box Office	Satisfactory	Final	Assurance

End.