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**INTERNAL AUDIT REPORT**  
**Cheltenham Borough Council**

**Annual Internal Audit Opinion 2016/2017**

## 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 the opinion of the Acting Head of Audit Cotswolds, 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. The 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 the 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 Acting Head of Audit Cotswolds 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 i**. There were matters arising from the work during the year that were deemed a significant control weakness. A 'limited assurance' opinion was issued in these circumstances. The risks associated with the control issues raised in the audit reports are being actively managed by the responsible Management.

## **Compliance with the Public Sector Internal Audit Standards**

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. The process and outcome of this review is set out below.

## **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 1<sup>st</sup> 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:

- 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.
- 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 that we provide an effective service is obtained from the Audit Partnership Board and that Council management are proactive in audit planning and responsive to recommendations and advice. Performance against local performance indicators is reported to each client. Performance is also measured in comparison to other local authorities who are members of the CIPFA benchmarking group. We have an Audit Charter and work to an approved Annual Plan. The Audit Charter and the Annual Plan demonstrate what the Council wishes from its internal audit service, eg the relationship or balance between financial, governance and operational assurances, consultancy type work, value for money activity and counter fraud work.

## **Developing the Internal Audit planning process**

The Audit Plan for 2016/17 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.

## Resourcing

The service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2016/17 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (CIIA)
- Association of Accounting Technicians (AAT)

During the year two of our Senior Auditors left following successful recruitment in the Civil Service, we started the recruitment process to ensure the service was fully resourced so we could continue to meet our obligations. Previous experience in recruiting highlighted that it was more beneficial to our Internal Audit service to recruit at Assistant Internal Auditor level and 'grow our own' auditors. This was proved in 2015/16 when we successfully recruited two Assistant Internal Auditors, with excellent transferrable skills from different fields (engineering and leisure), who have now progressed to Internal Auditors and are conducting audits to a very high standard, and they are currently completing their first year of a Masters degree in Audit Management and Consultancy. We followed the same route in 2016/17 and again, successfully recruited two Assistant Internal Auditors who have started to conduct audits on their own and have successfully completed their probations. They will start studying towards a professional qualification in September 2017.

The Head of Audit Cotswolds was absent during 2016/17 and Lucy Cater, Operational Head of Internal Audit, acted up into this role for the year. Duties included ensuring resources were sufficient to complete the audit plans, monitoring of audit plans, reporting to Audit Committees and audit planning for 2017/18.

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 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
- CIIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference
- Two members of the team commenced studying for the MSc in Audit Management and Consultancy

## Looking forward

During 2016/17 a review of the provision of internal audit services was carried out to identify a single provider of internal audit services to the three 2020 authorities, Cheltenham Borough Council and the existing non-local authority Audit Cotswolds' clients. The South West Audit Partnership (SWAP) was successful with their submission and Audit Cotswolds' staff TUPE Transferred with effect 1<sup>st</sup> April 2017. The audit team, in the main, will remain the same as will the working locations. Significant local knowledge has been lost, due to the redundancy of a long serving auditor, but we have access to other Senior Auditors within SWAP to assist with the completion of the audit plan. SWAP use audit management software, MKInsight, which will replace the manual systems, word, excel etc. that Audit Cotswolds were using and will make our processes more efficient.

Cotswold DC, West Oxfordshire DC and Forest of Dean DC are progressing with the 2020 Vision Programme, and have created three limited companies. Cheltenham Borough Council will become a shareholder of one of the companies, Publica Group (Support) Ltd, and will receive the same support services

from the company that GO Shared Services are currently providing. Days have been included in the 2017/18 Audit Plan to review the set-up of the company of which CBC is a shareholder, review the monitoring arrangements to ensure CBC are receiving their service requirements and to review CBC's arrangements to effectively manage the relationship of the risks of the services provided by Publica Ltd.

### **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.

**Lucy Cater** MSc, CMIIA, MAAT

**Acting Head of Audit Cotswolds (2016/17)**

**Assistant Director (South West Audit Partnership) (2017/18)**

**For**

**Cheltenham Borough Council**

## Cheltenham Borough Council

**Internal Audit Annual Opinion**  
**on the effectiveness of the system of Internal Control for**  
**the year ended 31<sup>st</sup> March 2017**

**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 Head of Paid Service 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 Acting Head of Audit Cotswolds 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 for 2016/17 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 purpose of the Internal Audit Annual Opinion is to contribute to the assurances available to the Head of Paid Service 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.

The opinion for the year ended 31<sup>st</sup> March 2017 is set out as follows:

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

The **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 the 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 the 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 the opinion.

Consideration has been given to 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 2016/17 is detailed in **Appendix (i)**

In 2016/17 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within the reports, details of all finalised audit reports were provided for Audit Committee along with information relating to the service.

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 the assessment of the overall control environment. Observations made by Internal Audit and the acceptance of advice have further enhanced the control environment.

There were matters arising from audit reviews during the year that were deemed significant control weaknesses. On these occasions either a 'poor' or 'limited' assurance opinion was issued. The risks associated with the control issues raised in the audit reports are being actively managed by the responsible Managers. Therefore, due to the positive response to the findings and recommendations in these audits and the number of satisfactory and high assurance opinion audits being finalised during the year, the overall opinion for CBC is **Satisfactory Assurance**.

#### The assessments reported from other inspection processes

In formulating the overall opinion on internal control, the Internal Audit department 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
- ICT Audit and Compliance Manager

#### 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

**Lucy Cater** MSc, CMIIA, MAAT

**Acting Head of Audit Cotswolds (2016/17)**

**Assistant Director, South West Audit Partnership (2017/18)**

**For**

**Cheltenham Borough Council**

## Appendix (i)

### Table of Internal Audit work in 2016/17

#### AUDIT ACTIVITY / REVIEW AREAS AND ASSURANCE LEVELS

The following table provides a summary of the Internal Audit Service activities and assurances gained

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
<b>Audits outstanding as in the 2015/16 Internal Audit Opinion</b>				
1	NNDR (Business Rates)	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
2	Housing Benefit	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
3	Council Tax	Year 2 module of 3 year (2015/16) programme	Final Memo	Assurance – Satisfactory
4	GOSS – Finance Systems	Payroll	Final Report	Assurance – Satisfactory
5	GOSS – Procurement, Insurance, Health and Safety	Health and Safety Audit undertaken as part of Security Audit	Final Report	Assurance – Limited
6	Contract Management	Review of key contracts including tender processes, plus review of contractor use	Final Report	Assurance – Limited
7	Performance Management	Focus on performance of projects and programmes in particular the role and responsibilities of SLT and Cabinet	Final Report	Assurance – High
8	Performance Management	Completion of 2014/15 audit. Review concentrated on Staff Performance	Final Report	Assurance – Satisfactory
9	Security	Review of buildings and personal security	Final Report	Assurance – High
10	Safeguarding Adults and Children	Support the Safeguarding peer review and audit	Final Report	Assurance – Limited
11	Art Gallery and Museum	Follow-Up of the recommendations made in the Art Gallery and Museum Report	On-going	Recommendations continue to be monitored as part of IA's involvement with the Cem and Crem Redevelopment Project and will continue into 2017/18
12	Car Parking Follow-Up	Follow-Up of the report submitted to AC	On-going	Review conducted but recommendations depend on the implementation of the new parking strategy. Further IA review included in 2017/18 plan

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
<b>2016/17 Internal Audit Plan</b>				
<b>Section 1 – Core Governance and Core Finance Audits</b>				
13	Annual Governance Statement	Support for and review of the production of the Annual Governance Statement and sample elements of the supporting information 2015/16	Complete	Assurance – Satisfactory
14	Audit Committee Effectiveness	Annual review of the Audit Committee against appropriate guidance and standards	Review commenced, no issues identified	Further reviews will be undertaken by SWAP
15	Internal Audit self-assessment (Annual)	Annual self-assessment of Internal Audit's performance against Public Sector Internal Audit Standards (PSIAS)	Complete	
16	Risk Management	Selection of risks from registers and mitigating controls and actions to test their effectiveness	Final Report	Assurance – Good
17	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Public Services Network (PSN)	Final Report	SWAP Assurance – Reasonable (Satisfactory)
18	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Data Handling	Review deferred by Head of Service in consultation with the Chief Financial Officer	Review to be included in 2017/18 EU General Data Protection Regulations
19	ICT Audit Audit conducted by South West Audit Partnership (SWAP)	Disaster Recovery Planning	In Progress	
20	Council Tax Support	A review of an element of the Council Tax Support process, the programme of activity ensures full coverage of the service over a 3 year cycle	Final Report	Assurance – High
21	Council Tax	A review of an element of the Council Tax process, the programme of activity ensures full coverage of the service over a 3 year cycle	Final Report	Assurance – High
22	NNDR (Business Rates)	A review of an element of the NNDR process, the programme of activity ensures full coverage of the service over a 3 year cycle	Final Report	Assurance – High
	<b>GO Shared Services (GOSS) Audits</b>	<b>Days allocated to the following Audits are CDC's element of the GOSS Audit Plan</b>		
23	Main Accounting, Budgetary Control and Capital Accounting	A review of the element of the operating systems, the planned programme of activity ensures full coverage over a 3 year cycle. Assurances are sought for the GOSS controls operating in respect of its Clients and transactional testing is performed for each of the Clients	Final Report	Assurance – High
24	Treasury Management and Bank Reconciliations		Final Report	Assurance – High
25	Payroll		Final Report	Assurance – Good

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
26	Accounts Receivable (Debtors)		Final Report	Assurance – High
27	Account Payable (Creditors) Audit conducted by SWAP	Transactional Testing for each client, assurance over GOSS controls to be informed by SWAP auditors (the Forest of Dean DC's Internal Audit Team)	Final Report	SWAP Assurance – Reasonable (Satisfactory)
28	Systems Administration of Agresso Business World (ABW)	A review of the operating systems and the controls in place	Review deferred in consultation with Head of Finance due to planned system build for Publica Ltd	Audit involvement required during 2017/18 for the design and build of Business World for Publica Ltd
29	Human Resources Review to include FoDDC	A review of a Human Resources area. Scope of the audit is the Starters and Leavers process and included HR and ICT processes	Final Report	Assurance – Satisfactory
30	Other GOSS Area – Insurance	A review of Insurance service provided by GOSS to its Clients	Final Report	Assurance – Good
<b>Section 2 – Risk Based Audits</b>				
31	Employee Turnover	Review of the controls in place to mitigate against loss of staff. How are management addressing the risk, identification of the reasons for staff turnover, are mitigating actions effective	Final Report	Consultancy – N/A
32	Risk and Control Implications of Meeting the Funding Gap	Achievement of proposed financials in MTFS looking at the assessment of risks and achieving these projections (income / savings)	Final Report	Assurance – Good
33	Garden Waste Review to include FoDDC	Review of the processes and systems used for the charging of green waste. Looking at efficiencies, standardising processes etc.	Final Report	Advice note
34	Business Rates Pooling Audit to be conducted by SWAP	Audit of pooled assets (what / how / how are they reported), calculation of appeals. Suggestion from CBC Audit Committee	Final Report	Advisory
35	NNDR (Business Rate) Reliefs	Review of NNDR Reliefs ensuring that the correct relief has been added to accounts in accordance with legislation	Final Report	Assurance – High
36	Fleet Management	Review of the management of fleet by Ubico on behalf CBC (and CDC) to include the replacement of vehicles, purchase and recharging	Final Report	Assurance – Satisfactory
37	Planning Application Process	Review of the planning application process to ensure compliance with statutory legislation in respect of the processing cycle	Final Report	Assurance – Satisfactory
38	Food Safety	Review of the policies and procedures in place in respect of Food Safety to ensure compliance with the introduction of the new act which comes into effect from 1st April 2016	Final Report	Assurance – Satisfactory
<b>Section 3 – Advice and Consultancy</b>				
39	New Housing and Planning	Review of the introduction of the New	On-going	Consultancy

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
	Act	Housing and Planning Act - ensuring the Council is ready / prepared for the new act		
40	Community Infrastructure Levy (CIL)	Support for the CIL process ensuring that the Council is prepared for the introduction of CIL	On-going	Consultancy
41	Charging Mechanisms	Review of the charging mechanisms to include statutory and discretionary charges and the potential generating, or increasing income, from some service areas	Review Deferred	To be included in 2017/18 audit reviews for Place and Economic Development
42	Review of the outcomes of the Gloucestershire Joint Waste Committee  Audit to be conducted by SWAP	A review to ascertain if the Gloucestershire Joint Waste Committee is delivering the outcomes envisaged when it was established	Final Report	Consultancy
43	2020 Vision Programme	Support for the 2020 Vision Programme and Projects	On-going	Consultancy
44	Cemetery and Crematorium Programme	Support for the Cemetery and Crematorium Programme. Attendance at Project Boards and Gate Reviews.	On-going	Consultancy
45	Development Taskforce	Support for the Development Taskforce, attendance at meetings	On-going	Consultancy
46	Neighbourhood Projects	Advice on sourcing resource to undertake a review of the projects, inputs, outcomes etc	Complete	Advice – N/A
47	Change Programmes	Support for other change programmes / projects	On-going	
<b>Section 4 – Other</b>				
48	Management	Preparation of IA Monitoring Reports and preparation and attendance at Audit Committee. Annual Audit Planning. Attendance at Governance and Risk Groups. High level programme monitoring. Liaison meetings with CFOs and Management Teams	On-going	N/A
49	Payment Channels and Income Streams Follow-Up	Follow-Up testing of a 'Limited Assurance' Audit	Complete	Further Follow-Up planned for 2017/18 as not all recommendations actioned
50	GOSS – Health and Safety	Follow-up testing of the 2015/16 'Limited Assurance' Audit	Complete	One recommendation remains outstanding, two have been partly completed and seven have been actioned. Further Follow-Up planned for 2017/18 for outstanding recommendations
51	Contract Management	Follow-up testing of the 2015/16 'Limited Assurance' Audit	Draft Memo	Further Follow-Up planned for 2017/18 as not all

Ref	Audit Activity	Focus of assignment	Status	Type of Audit & Opinion
				recommendations actioned
52	Enforcement Tender Review	Ad-hoc piece of work. Review of enforcement tenders (CDC, CBC, WODC, TBC, FoDDC) due to one point difference in scoring. Days to be taken from Contingency	Complete	N/A
<b>Section 5 – Follow-up Audits (follow-up of previous years Audits)</b>				
53	Social Media		Complete	Further Follow-Up planned for 2017/18 as not all recommendations actioned
54	Data Protection		Complete	All recommendations actioned
55	Members Allowances		Complete	All recommendations actioned
<b>Section 5 - Other work undertaken by the Internal Audit Department</b>				
56	National Fraud Initiative	On-going support for the scheme	On-going	N/A
57	Audit Management Software	Design and build the new Internal Audit Management Software to our specifications	Complete	N/A
58	Audit Cotswolds 2020 Proposal	Drafting the proposal for providing the Internal Audit service to 2020 and the four partner Councils	Complete	N/A
59	SWAP Transfer	Officer time allocated to the Internal Audit (Audit Cotswolds) service transfer to SWAP	Complete	N/A
60	Internal Investigation	Auditor time allocated to a complex internal investigation	Complete	N/A