

# Cheltenham Borough Council

## Report of Internal Audit Activity

Plan Progress 2017/2018

January 2018



## Contents

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➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2
➡	Approved Changes to the Audit Plan	Page 3
➡	Appendices:	
	Appendix A – Internal Audit Work Plan	Page 4 - 8
	Appendix B – Internal Audit Work Definitions	Page 9 – 10
	Appendix C – Executive Summary of Finalised Audit Assignments	Page 11 – 20

## Internal Audit Plan Progress 2017/2018

### Our audit activity is split between:

- **Governance Audit**
- **Operational Audit**
- **Key Control Audit**
- **IT Audit**
- **Other Reviews**



### Role of Internal Audit

The Internal Audit service for Cheltenham Borough Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter. A copy of the latest document is attached at Appendix D for approval by the Audit Committee at this meeting.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Governance Audits
- Operational Audits
- Key Financial System Controls
- IT Audits
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Council's Management Team. The 2017/18 Audit Plan was reported to, and approved by, Audit Committee at its meeting in March 2017.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2017/2018

### Outturn to Date:

**We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action**



### Internal Audit Work

The schedule provided at [\*\*Appendix A\*\*](#) contains a list of all audits as agreed in the Annual Audit Plan 2017/18. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in [\*\*Appendix B\*\*](#) of this document.

As is shown in [\*\*Appendix A\*\*](#) good progress is being made on the 2017/18 audit plan.

As agreed with this Committee where a review has a status of ‘Final’ we will provide a summary of the work and further details to inform Members of any key issues, if any, identified.

We have finalised five audit reviews since the last meeting of this Committee. I am pleased to report that the audit reviews have not returned an adverse audit opinion of either ‘No Assurance’ or ‘Partial’ Assurance. Further to this, the reviews have not identified any significant risks that I need to bring to your attention. Further information on the finalised reviews can be found within [\*\*Appendix C\*\*](#).



## Internal Audit Plan Progress 2017/2018


We keep our audit plans under regular review to ensure that we audit the right things at the right time.





### Approved Changes to the Audit Plan

The audit plan for 2017/18 is detailed in **Appendix A**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Cheltenham Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.


The Device Strategy has been dropped from the plan, with agreement with the S151 Officer and has been added back into contingency.


Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Governance, Fraud & Corruption	Annual Governance Statement (for year 2016/17)	Q1	Complete	Satisfactory							
Operational	Grant Payments to Third Parties	Q1	Final	Substantial	2			2			
Key Control	Treasury Management and Bank Reconciliations	Q2	Final	Substantial	0						See Appendix C
ICT	EU General Data Protection Regulations	Q2	Final	Non – Opinion							See Appendix C
Operational	Elections	Q4	Final	Substantial	0						See Appendix C
Operational	Damages Recovery	Q3	Final	N/A	0						See Appendix C
Governance, Fraud & Corruption	Risk Management	Q2	Final	Substantial	1			1			See Appendix C
Operational	MTFS	Q4	Draft	Reasonable	3			3			See Appendix C
DRAFT											
Operational	Ubico Recycles	Q2	Draft								Waiting Management Response
Operational	Ubico Data Monitoring	Q2	Draft								Waiting Management Response

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
Operational	S106 Agreements and Funds	Q2	Draft								Waiting Management Response
Key Control	Other GOSS Area (Procurement / Insurance / H&S)	Q3	Draft								Waiting Management Response
IN PROGRESS											
Key Control	Accounts Payable (Creditors)	Q3	In Progress								Transactional Testing Complete. Control / process review in progress
Key Control	Payroll	Q3	In Progress								Transactional Testing Complete. Interim report issued for control / processing areas. Testing will re-commence following transfer to Publica
Key Control	Council Tax Benefit	Q3	In Progress								
Key Control	Council Tax	Q3	In Progress								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
Key Control	NNDR	Q3	In Progress								
ICT	Protection from Malicious Code	Q3	In Progress								
ICT	ICT Policies	Q3	In Progress								
Key Control	Serious and Organised Crime Checklist	Q4	In Progress								
Key Control	Serious and Organised Crime Audit	Q4	In Progress								
Key Control	Fighting Fraud and Corruption	Q4	In Progress								
Key Control	Main Accounting, Budgetary Control and Capital Accounting	Q3	In Progress								
Key Control	Accounts Receivable (Debtors)	Q3	In Progress								
NOT STARTED											
Key Control	Business World System Administration	Q3									
Key Control	Human Resources	Q3									
ICT	Public Services Network Submission	Q3									
Governance, Fraud & Corruption	Audit Committee Effectiveness (Annual)	Q4									



Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud & Corruption	Performance Management	Q4									
Key Control	IR35	Q4									
ICT	ICT	TBC									
ADVICE AND CONSULTANCY											
Non Opinion	2020 Vision Programme	Ongoing									
Non Opinion	Cemetery and Crematorium Development	Ongoing									
Advice	Ubico	Ongoing									
Advice	Leisure and Culture Trust	Ongoing									
Advice	Parking Strategy	Ongoing									
Advice	Revised Arrangements for S151 Officer Role	TBC									
Advice	Change Programmes	Ongoing									
Advice	Equality and Diversity	Ongoing									Scope changed from a Risk Based Audit to an Advice piece of work

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
OTHER INTERNAL AUDIT INVOLVEMENT											
Advice	Management	Ongoing									
Follow Up	Safeguarding	Q4	Review Initiated								
Follow Up	2016/17 Follow Up Reviews	Ongoing									
	Contingency Days	Ongoing									
DROPPED											
ICT	Device Strategy										Days added back into contingency

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	▲ ★ ★ ★	We are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★ ★ ★	We are able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★ ★ ★	We are able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>No Assurance</b>	▲ ★ ★ ★	We are not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion** – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



## Audit Framework Definitions

### Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

### Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management and the Audit Committee.

## Summary of Audit Assignments Finalised since the last Audit Committee

**Audit Assignments finalised since the last Audit Committee:****Summary of Audit Findings and High Priority Service Findings**

The following information provides a brief summary of each audit review finalised since the last Committee update.

**Treasury Management and Bank Reconciliation – Substantial Assurance**

As part of the 2017/2018 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Treasury Management (TM) and Bank Reconciliation across the Publica/GOSS clients, which includes Cheltenham Borough Council.

CIPFA defines Treasury Management (TM) as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." The importance of Treasury Management to an organisation is evident from the CIPFA definition, and as such is included in each year's internal audit plan for review.

Bank reconciliation is one of the primary key financial controls to detect fraud and error, and as such it is very important to provide assurance that this fundamental control is being undertaken correctly on a regular basis. Consequently, bank reconciliation is also included in each year's internal audit plan for review.

Well controlled areas include:

- Business Continuity Arrangements – Officers trained to cover absences.
- Negotiating investment - in accordance with the Investment strategy set for the financial year.
- Keeping up to date with the latest regulations – Recent attendance at CIPFA workshop.
- Carry out daily cash management – Use of Lloydslink and Logotech TM system
- Regular reconciliations – Timely and signed reconciliations completed



Our testing found that sound controls are operating in the areas we reviewed during this audit and therefore there are no recommendations to be made this year.

### **EU General Data Protection Regulations (EU-GDPR) – Non-Opinion**

#### **Background**

The European General Data Protection Regulations (GDPR) was enacted in May 2016 and comes into force on the 25th of May 2018 (the GDPR 'effective date'). This has allowed organisations a period of time in which to ensure that their current data processing activities are compliant with the requirements of the GDPR. GDPR is the new legislation covering the processing of personal data previously covered by the Data Protection Act 1998 (DPA). GDPR is currently being incorporated into the Data Protection Bill together with the Crime Directive and incorporates the derogations the UK wishes to allow for under the GDPR.

Many of the main principles within the GDPR are the same as those in the current Data Protection Act, so if the authority is complying with current legislation this will be a good starting point to build upon when considering GDPR. However, there are some elements within the GDPR which are new or enhanced – such as accountability – that will require further work by organisations. Other key areas requiring consideration include compulsory reporting of data breaches within 72 hours of becoming aware and reduced timeframes in which to respond to data subject access requests. The new regulations increase the rights of the individual in relation to their personal data.

If the required controls are not put in place by the GDPR effective date, there is a greater risk that the control and processing of personal data will be in contravention of the GDPR. The GDPR not only tightens the reporting requirements of data breach reporting, but also introduces a significant increase to fines as a result of non-compliance with the regulations when compared with the DPA. All of this culminates in significant financial, legal and reputational risk to the Council.

#### **Purpose and Objective**

The purpose of this audit is to review the arrangements that the Council has in place to address the requirements of the GDPR, ensuring its compliance by the effective date. The objective of the review is to

provide assurance that the Council has an effective transition plan in place, which is being measured and reported on to ensure that the organisation will be compliant with GDPR from the 25th of May 2018.

This report reflects the status of the project at the time fieldwork was completed – during August and September 2017. Although the focus of this review included identification of risk and any evidence available to support controls already in place, we are unable to offer assurance on controls which are planned but not yet implemented.

Due to the structure of the project action plan, some of the activities intended for review (as per the scope) had not been started at the time the audit fieldwork was completed as their commencement was reliant on the completion of initial data audits. This is reflected in the absence of any findings in this report relating to these areas. These areas will be reviewed and reported on as part of a planned follow-up audit in April 2018.

#### Summary of Findings and Conclusion

The Council is undergoing significant information gathering and implementing process changes to ensure GDPR compliance is met. These new controls are currently in their planning and early implementation stages, and therefore are yet untested. The possible impact to the Council is based on current information that fines for non-compliance with GDPR could reach €20 million.

We have seen that a Project Board has been established, a Project Initiation Document (PID) has been developed including an initial action plan and resource has been allocated - preparations towards compliance are underway. Due to the project being in the early stages of implementation and the potential level of reputational and financial risk relating to non-compliance with the GDPR, we have categorised the overall risk at the time of this review as 'High'.

The next step of the project is for the data audits to be completed and the results are to be analysed in a timely manner. From this, a gap analysis will be carried out which will allow for the action plan and project deliverables to be more detailed – reflective of the fact that these are live working documents. As the project and the detailed action plan progresses, additional controls will be implemented and tested. As a result of

this, we expect that our assessment of the risk level could reduce to 'Medium' in the short-term.

The Council has made a successful start to the implementation of the GDPR by the 25th of May 2018. The GDPR Action Plan that has been developed provides a strong initial framework of activities that need to be completed and key deliverables which, if followed, should allow the Council to be compliant with the GDPR by the required date. As a live working document, the Action Plan needs to be continually developed and detail added as the project progresses to ensure this result.

### **Elections – Substantial Assurance**

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for the administration of Elections and the Electoral Registration process. The focus of the review was on the administration and control of funds relating to local, county, and national elections delivered by Cheltenham Borough Council (CBC).

The Electoral Commission (EC) provides guidance and templates to assist Returning Officers, who are personally liable to deliver successful elections. Each different election type has a different source of funding:

- District (local) elections are funded by CBC
- County Council elections are funded by Gloucestershire County Council (GCC)
- Referendums, UK Parliamentary, Police and Crime Commissioner (PCC) and European Elections are funded by Central Government bodies

For elections where funding is outside of the local authority, accounts must be produced to support a claim to obtain the relevant funds and evidence must be retained to support expenditure.

In the last two years there have been five elections; EU referendum, PCC, General Election, County Council and Local Elections. Review and examination of processes operating for 3 of these elections found that robust financial management was being applied which was in accordance with the requirements of statutory

bodies and the Council's own Financial Rules. Each election had been satisfactorily delivered and funding received where applicable.

CBC has a statutory duty to produce and maintain an electoral register on an annual basis. In 2014, Individual Electoral Registration (IER) was introduced to replace householder registration. The Cabinet Office (CO) committed to funding the transition to IER and has maintained annual funding since its introduction.

Our examination and sample testing of processes operating within the Electoral Registration process found that statutory timeframes had been met and that the percentage return of the Household Enquiry Forms had increased from 95.6% in 2015 to 97.2% in 2016. Expenditure related to this process also proved to be effectively controlled.

Well controlled areas include:

- The use of an external individual to verify/check financial accounts and claims is in line with good practice as set out by the Electoral Commission.
- The recent introduction of tablets for canvassers, has expedited the electoral registration process (due to real time results). The roll out of tablets has been well managed with procedure notes drafted for office staff and multiple training sessions for canvassers.
- The Elections & Registration manager co-ordinates with GO-Shared services when planning a budget for an upcoming election.

In summary, we can confirm that robust controls are operating within the areas reviewed.

**Damages Recovery – Non-Opinion**

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Damages Recovery (recovering monies from liable parties for damage repairs that the Council has had to undertake). This review does not include damage to the housing stock.

To be able to pursue recovery of costs associated with damage, either vandalism or accidental, the perpetrators of the damage need to be identified. However, perpetrators are often unable to be identified unless a criminal investigation is undertaken. In addition, it is important to ensure the balance between cost recovery and officer time involved in pursuing recovery is considered prior to undertaking recovery actions.

Our review of how the Council approaches cost recovery has found that for the period April 2015 to April 2017 the Council did not recover any damage related costs. During this period there were a total of 29 reactive repairs undertaken, the total cost of these repairs was £4,423. These repairs generally related to damage to doors/windows as a result of break ins, or cleaning of graffiti. There was one repair attributed to the bridge on the Lower High Street, for which the cost incurred by the Council was £189 + vat.

We also held discussions with the GO Shared Services Insurance Officer who confirmed that an excess amount of £1,000 is applicable on insurance claims and that he was not aware of any incidents where a claim would be appropriate. Our review of the repairs expenditure can confirm that there were no individual amounts which could be pursued via the insurance process.

We can confirm that health and safety considerations are taken into account and damage related incidents are actioned promptly to ensure that the damage is made safe.

Inspections are undertaken promptly, and repair works awarded to Council approved contractors so that the damage is addressed swiftly.



We do not consider it appropriate to offer an assurance opinion as our review has found that damage to Council property is infrequent, the costs associated with repairs is minimal, and therefore formal processes and procedures to recovery costs have not been undertaken.

### **Risk Management – Substantial Assurance**

As part of the 2017/18 audit plan a high-level review of Risk Management processes at Cheltenham Borough Council (CBC) has been undertaken and the effectiveness of these processes in relation to a major programme, the Cheltenham Crematorium Development, has also been examined.

Planning permission was granted for the Crematorium Development in Summer 2017, work started on the first phase in October 2017 and the programme has a target completion date of Spring 2019. Pick Everard have been appointed to provide project management and quantity surveying support and Willmott Dixon have been appointed as principal contractor.

During this audit, discussions were held with the Governance, Risk and Compliance Officer and the Programme Manager of the Cheltenham Crematorium Development. We also had access to the CBC website, staff intranet and shared drive.

CBC's 2017 Risk Management policy has been approved by Members (March 2017) and is available on the CBC website and internal intranet for Council employees and Cheltenham residents to access. The policy includes processes for identifying, assessing, scoring, reporting and monitoring all levels of risk, and risk responsibilities have been assigned.

We established that risk registers are kept as follows at CBC;

- Corporate Risk Register
- Divisional Risk registers
- Project / Programme Risk Registers

The Risk Registers reviewed were found to be maintained, reviewed and scored in accordance with the policy.

A risk training workshop was delivered to all Service Managers and Directors (November 2016). Previously, a self-led risk course held on the Learning Gateway was available to all Officers, but this service is now not in place. The Governance, Risk and Compliance Officer confirmed once a replacement system is operating they will ensure risk management training material is accessible.

Risk management processes operating in relation to the Cheltenham Crematorium Development programme were found to be implemented in accordance with those outlined in the policy.

Well controlled areas include:

- We found that processes operated well in the following areas:
- Risk Registers – Evidence was seen to support that risks are recorded and scored in accordance with the Risk Management policy and are regularly reviewed by appropriate Officers.
- Programme Risk reporting, monitoring and review – Highlight reports were seen to support that programme risks are regularly reported to the Senior Leadership Team (SLT) and meeting minutes confirm that risks are also reported to Members for them to monitor and review.

From the high-level review of current risk management arrangements and processes undertaken, we can offer substantial assurance they are being carried out in line with policy and should help to manage risk and support the delivery of CBC's objectives at all levels of the organisation.

### **Medium Term Financial Strategy – Reasonable Assurance**

As part of the Cheltenham Borough Council 2017-18 audit plan, a review has been undertaken on the Medium Term Financial Strategy (MTFS).

The focus of the audit has been on the items in the Savings Strategy section of the MTFS, and the adequacy of the controls and procedures in place for ensuring these are monitored effectively has been assessed. Three large corporate projects which are expected to deliver savings and are included in the Savings Strategy have been examined in more detail, although only from the perspective of the MTFS savings. These are:

- 3a) Depot Rationalisation
- 3b) Municipal Offices – the Accommodation Strategy - Relocation project
- 4b) West Cheltenham – increase in business rates

In their Audit Findings report for 2016-17, Grant Thornton, the Council's external auditors made a recommendation in relation to the Council's savings plan, stating *The Council currently has a balanced budget to 2019-20, however the achievement of the balanced budget is dependent on a number of red rated savings in 2019-20. We recommend that management continue to monitor high risk savings within the balanced budget.*

The MTFS is updated annually and is usually submitted to the Cabinet for approval in October. The next version is currently being written and is due to be submitted for approval in December. Members were advised of the delay, which was attributed to uncertainty surrounding business rates retention, new homes bonus and pay awards for the public sector.

There is a corporate project - Bridging the Gap – to monitor the progress of the savings. In the August 2017 report the project sponsor, the Chief Finance Officer, stated that red-rated savings targets have significant risks associated with them. Traffic light (RAG) ratings are used to summarise the status – the project is

currently rated amber (defined as *progress is delayed and mitigating actions are in place*).

Reporting to members is via the quarterly budget and performance monitoring report taken to the Cabinet and Overview and Scrutiny committee.

As at August 2017, £958k of savings in the MTFS were rated red (defined as *will not meet end date without management intervention*), and an additional £100-300k of amber-rated savings are not expected to be achieved and are likely to be red-rated in the future.

The next version of the MTFS, for the period 2018-19 to 2020-21, was taken to the Council's Cabinet in December 2017. The Savings Strategy within the MTFS has been revised to align with the Council's new proposed Executive team structure of Place and Growth; People and Change; and Finance and Assets, together with a planned and proactive approach to the use of reserves. Savings are grouped under each theme; and although savings for individual projects will continue to be monitored, there will be more focus on the overall savings position for each theme, and so a more holistic approach.