

Cheltenham Borough Council

Report of Internal Audit Activity

Internal Audit Annual Plan 2018/19

Internal Audit Charter 2018/19

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Internal Audit Annual Plan and Internal Audit Charter 2018/19

The role of the Internal Auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Purpose

The purpose of this report is for members to approve the Internal Audit Annual Plan and the Internal Audit Charter for 2018/19.



Role of Internal Audit

The role of the internal auditor is to provide independent, objective, assurance to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and provide an opinion on the effectiveness of these arrangements.

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of an organisation, with the work undertaken significantly contributing to the statutory Annual Governance Statement (AGS).

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must 'undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance'.

SWAP Internal Audit Services (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. These standards define the way in which the Internal Audit Service should be established and undertakes its functions.

Internal Audit Annual Plan and Internal Audit Charter 2018/19

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Role of Internal Audit (Continued)

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The role of the Internal Auditor is to provide *independent, objective assurance* to management and members that key risks are being managed effectively.



Role of Internal Audit (Continued)

It is the role of management to establish effective systems of governance, risk management and internal controls to:

- Safeguard the Council's resources and prevent fraud;
- Ensure the completeness and reliability of records;
- Monitor adherence to laws, regulations, policies and procedures;
- Promote operational efficiency, demonstrate the achievement of value for money; and
- Manage risk

It is the responsibility of management to establish controls needed to confirm that their systems are working effectively, that all information is accurate, and the risk of fraud and error is minimised.

Internal Audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of Internal Audit to re-perform management's checks or to undertake such checking on management's behalf. In order to safeguard Internal Audit's independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making or policy setting within the Council.

Internal Audit Annual Plan 2018/19

Our audit activity is split between:

- Governance Audits
- Key Financial Control Audits
- ICT Audits
- Operational Audits
- Follow-Up Audits
- Advice and Consultancy
- Other Reviews



Internal Audit Annual Plan 2018/19

The Internal Audit Annual Plan is presented at **Appendix A** to this report and represents the Internal Audit activity for the 2018/19 financial year.

To ensure that to the best of our ability we have covered the necessary risks, the Internal Audit Annual Plan has been developed, following consultation with Members, Senior Management and with the co-operation and approval of the S 151 Officer. We have also taken into account management's assessment of risk from the Corporate Risk Register as well as risks identified in the Operational Risk Registers.

We also use our own risk assessment against each activity assessing reputational impact, change factor, financial risk, legal / statute, strategic priorities and health and safety risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk.

The Audit Plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent.

At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. Any changes to the agreed plan will only be made through a formal process involving the S 151 Officer.

Our audit activity is split between:

- **Governance Audits**
- **Key Financial Control Audits**
- **ICT Audits**
- **Operational Audits**
- **Follow-Up Audits**
- **Advice and Consultancy**



Internal Audit Annual Plan 2018/19 (Continued)

The Audit Plan is notionally broken down across audit categories, the following summarises each:

Governance Audits – focus primarily on the key risks relating to cross cutting areas that are controlled and / or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.

Key Financial Control Audits – focus primarily on key risks relating to the Council’s major financial systems. These systems have been recognised as Accounts Payable (Creditors), Accounts Receivable (Debtors), Main Accounting, Payroll, Treasury Management and Bank Reconciliation and Revenues and Benefits (Council Tax, National Non-Domestic Rates, Council Tax Benefit).

The Audit Committee will be aware from the quarterly update reports that in recent years the key control audits have continued to receive high levels of assurance and several received substantial (high) assurance. As a result, using a risk-based methodology all of the key controls do not need an annual review. The exact scope of these audits will be agreed with the S151 Officer prior to commencement, taking into account emerging and current issues.

ICT Audits – ICT Reviews are completed to provide the Authority with assurance with regards to their compliance with industry best practice. SWAP has specialist Computer Auditors who will liaise with the ICT Manager to identify specific ICT related risks. The exact scope of the audits has therefore yet to be determined however, areas for consideration include cybersecurity, Members’ ICT and Physical Networks / Network Access.

Our audit activity is split between:

- **Governance Audits**
- **Key Financial Control Audits**
- **ICT Audits**
- **Operational Audits**
- **Follow-Up Audits**
- **Advice and Consultancy**



Internal Audit Annual Plan 2018/19 (Continued)

Operational Audits – are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised, and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Follow-Up Audits – where an audit receives a Partial or No Assurance level, SWAP will carry out a follow-up review to provide assurance that identified weaknesses have been addressed and risks mitigated. Known follow-ups from work undertaken in the 2017/18 audit plan have been included. A contingency has also been built in to the plan so that, should any early reviews be awarded this level of assurance, they can be followed-up in a timely manner, this contingency will also allow us to follow-up previous year's audits that had recommendations but were awarded a positive assurance level.

Advice and Consultancy – are undertaken at the request of management, where they are looking for advice or support on a subject matter / programme / project. Such reviews are not afforded an audit assurance

An Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within an organisation.



Internal Audit Charter

An Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority, responsibility and position within an organisation.

The Internal Audit Charter describes how Internal Audit will provide value to the organisation, the nature of the services it will provide, and the specific focus or emphasis required of Internal Audit to help the organisation achieve its objectives. Having an Internal Audit Charter also establishes the Internal Audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical property relevant to the performance of engagements; also defining the scope of Internal Audit activities.

A copy of the Internal Audit Charter for 2018/19 is attached at **Appendix B**.

It is the role of the Audit Committee to review and approve the Internal Audit Charter on an Annual basis. The current Charter was last reviewed and approved by this Committee at its meeting on 20th September 2017.



Cheltenham Borough Council

Internal Audit Annual Plan 2018/19

Internal Audit Annual Plan 2018/19

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
Governance Audits	Annual Governance Statement	Review of the production of the Annual Governance Statement and sample testing elements of the supporting information	1
	Risk Management	To review a specific element of the Council's Risk Management process - Elements are audited on a cyclical arrangement	4
	Performance Management	Review of the Council's Strategy	4
Key Financial Control Audits	Revenues and Benefits	<p>A review of the controls operating in respect of:</p> <ul style="list-style-type: none"> • Council Tax • Council Tax Benefit • National Non-Domestic Rates <p>The programme of activity ensures full coverage of the services over a 3-year cycle</p>	3
	Core Financials	<p>A review of the controls operating within Publica in respect of the Core Financial systems:</p> <ul style="list-style-type: none"> • Payroll • Accounts Payable (Creditors) • Accounts Receivable (Debtors) • Treasure Management and Bank Reconciliations • Main Accounting, Capital Accounting and Budgetary Control <p>Transactional testing will be undertaken for the Council where appropriate to ensure compliance with Council Policies and Procedures</p> <p>Depending on previous years audit assurances a high-level review may be deemed appropriate.</p>	3
	Systems Administration	Review of the controls operating within Publica for the administration of the Business World System	3

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Human Resources	Review to confirm Absence Management is reported in accordance with policy and procedure, ensuring accurate information is reported and pay is reflected in accordance with the absence	3
	Other Support Service Provided by Publica	A review of Procurement / Health and Safety / Insurance. 2018/19 review to cover Procurement	3
	Serious and Organised Crime Audit	Review to scrutinise business operations to establish where they may be vulnerabilities to serious and organised crime	4
ICT Audits	EU General Data Protection Regulations	Review to ensure the Council's compliance with the new EU General Data Protection Regulations (to include transparency)	3
	Public Services Network Submission (PSN)	Annual review of the PSN submission to ensure data is accurate and submitted in accordance with Cabinet Office directives to ensure continued compliance	2
	Audits TBC	Other ICT Audits to be agreed (suggested areas shown below)	1 - 4
		Cybersecurity	
		Physical Networks / Network Access	
		Software / Hardware Management	
		Members ICT	
Operational Audits	Members and Officers Gifts and Hospitality and Declarations of Interest	Review to ensure the appropriate declarations are made in respect of Gifts and Hospitality and Interests. Review to also include accountability for the correct operation of the processes.	2
	Discretionary Housing Payments (DHP)	To ensure that the funds available for Discretionary Housing Payments are fully utilised and awarded in accordance with Government guidance and Council policy	4

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Licencing / Planning / Planning Enforcement	Review of one area per year (D Willingham email)	1
	Workforce Strategy	Review to ensure recruitment and retention policies support organisational objectives and aspirations for the future. HR Strategy aligned with organisation's overall strategy. Assessment of current and future skills gaps. Has the organisation given consideration to the demographic makeup of its workforce. Attracting younger talent.	1
	Corporate Culture	Review to assess whether the existing culture and staff behaviour reflects the organisation's stated ethos and values, do they stand in the way of the organisation achieving the transformation it seeks and how effective measures to reshape the culture are.	4
	Regulatory Awareness and Compliance	Review to ensure compliance is being effectively managed. Have the organisations have plans in place to ensure compliance when new legislation is introduced. Are systems in place for reporting non-compliance	2
	Procurement and Contract Management Governance	Due diligence processes are comprehensive, risk around the failure of contractors (Carillion) (New Housing / Leisure Centres)	1
	Business Continuity Management	Assurance review following the advice and consultancy audit undertaken in 2017/18	2
Follow-Up Audits	Follow-Up Audits	Follow-Up of Previous Year Audits (Substantial / Reasonable Assurances)	1 – 4
	Ubico (Recyclates)	Follow-Up of Previous Years No Assurance Audit	2
	Ubico (Data Monitoring)	Follow-Up of Previous Years Partial Assurance Audit	2
Advice and Consultancy (Non-Opinion)	Cemetery and Crematorium Development	Support for the cemetery and crematorium programme, including attendance at meetings and gate reviews	1 - 4

Audit Type	Audit Theme / Service Area	Specific Topic or Activity	Planned Quarter
	Parking Strategy / Cheltenham Task Force	To advise on any implications identified in the parking strategy. Review of the arrangements to support and ensure the delivery of outcomes following the introduction of the parking strategy	1 - 4
	P&ED Transformation Project	To conduct a review of the current programme	1 - 2
	CBC Organisational Change Project (not yet defined)	To support the new programme throughout the year offering assurance on the governance and internal control environments, ensuring they are secure	3 - 4
	Commissioning	Review of CBC's commissioning arrangements to ensure monitoring of contracts and services is appropriate. Review to help inform structure of organisation	3
	Publica Governance	Review to give assurance to the Council that the governance arrangements / structure of Publica are appropriate to ensure decisions / actions are made in accordance with legal agreements	1 - 4
	Change Programmes	Days to allow for support for change programmes and to include providing assurance to the Council in respect of the Publica Transformation Programme	1 - 4
Other Audit Involvement	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, including CFU	1 - 4
	Grant Certifications	Disabled Facilities Grants	1
	Grant Certifications	Provision for other Grant Certifications	1 - 4
	Contingency	Provision for new work based on emerging risks and Investigations	



Cheltenham Borough Council

Internal Audit Charter 2018/19

Reviewed February 2018

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

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Internal Audit Charter

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Internal Audit Charter 2018/19

The internal audit charter is a formal document that defines internal audit's purpose, authority, responsibility and position within the organisation.



Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Cheltenham Borough Council, and to outline the scope of internal audit work.



Approval

This Charter was approved by the Audit Committee on 20th September 2017 and is reviewed each year to confirm it remains accurate and up to date.

*The standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

The charter sets out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Provision of Internal Audit Services

The internal audit service is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Section 151 Officer in consultation with the Chief Executive of SWAP.



Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Responsibilities of Management and of Internal Audit

Management~

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Cheltenham Borough Council, or Publica, will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

~In this instance Management refers to the Management Team.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Relationship with the External Auditors / Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.



Status of Internal Audit within the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Section 151 Officer, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for Cheltenham Borough Council for all matters relating to the Audit Committee, including the provision of periodic reports. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the partner or client.

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Scope and Authority of Internal Audit Work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Cheltenham Borough Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Scope and Authority of Internal Audit Work (Continued)

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the Council in support of the Council's anti-fraud and corruption policy;
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined, and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work

The charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.



Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the Council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Executive Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

