

# Cheltenham Borough Council

Report of Internal Audit Activity

Plan Progress 2017/2018

April 2018

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## 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 SWAP Internal Audit Services (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.

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 Internal Audit Annual 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 with a number of audit reviews at draft report stage. Some reviews are showing as ‘In Progress’ but again, these are progressing well and all audits will be completed for inclusion in the Annual Audit Opinion.

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.

Three of the reviews we have finalised since the last meeting of this Committee have not returned an adverse audit of either ‘No Assurance’ or ‘Partial Assurance’.

We also concluded a further two audits, Ubico Recyclates and Ubico Data Monitoring, which we have combined in one report. Significant Findings were reported which include:

- Income is not effectively collected
- Budgets are not challenged to ensure that they are accurate.

The Recyclates review received a ‘No Assurance’ and the Data Monitoring review received a ‘Partial Assurance’.

Further information on all 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.

Days have been taken from the number originally planned for IA support of the 2020 / Publica programme, these days have been re-allocated to allow IA to draft, with the support of Management, the Annual Governance Statement for 2017/18.

We have also agreed to carry forward the days in the 2017/18 audit plan to allow us to conduct a Value for Money exercise in respect of the Cheltenham Trust.

# Internal Audit Plan Progress 2017/2018

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←→ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
<b>FINAL</b>											
Governance, Fraud & Corruption	Annual Governance Statement (for year 2016/17)	Q1	Complete	Satisfactory							
Operational	Grant Payments to Third Parties	Q1	Final	Substantial	2			2			Reported September 2017
Key Control	Treasury Management and Bank Reconciliations	Q2	Final	Substantial	0						Reported January 2018
ICT	EU General Data Protection Regulations	Q2	Final	Non – Opinion							Reported January 2018
Operational	Elections	Q4	Final	Substantial	0						Reported January 2018
Operational	Damages Recovery	Q3	Final	N/A	0						Reported January 2018
Governance, Fraud & Corruption	Risk Management	Q2	Final	Substantial	1			1			Reported January 2018
Operational	MTFS	Q4	Final	Reasonable	3			3			Reported January 2018
Operational	S106 Agreements and Funds	Q2	Final	Reasonable	5			5			See Appendix C
Key Control	Other GOSS Area – Health and Safety	Q3	Final	Reasonable	2				2		See Appendix C Recs for Publica
Key Control	Accounts Payable (Creditors)	Q3	Final	Reasonable	1				1		See Appendix C



# Summary of Audit Findings

# APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Operational	Ubico Recyclates	Q2	Final	No Assurance	3			2	1		See Appendix C
Operational	Ubico Data Monitoring	Q2	Final	Partial	2				2		
	Culture and Ethics		Final	N/A							Survey conducted by SWAP on behalf of all Partners
	Emergency Planning		Final	N/A							Survey conducted by SWAP on behalf of all Partners
<b>DRAFT</b>											
Key Control	Payroll	Q3	Draft Report								Waiting for Management Response
ICT	Protection from Malicious Code	Q3	Draft Report								
ICT	ICT Policies	Q3	Draft Report								
Key Control	Council Tax	Q3	Draft Report								
Key Control	NNDR	Q3	Draft Report								
Key Control	Council Tax Benefit	Q3	Draft Report								

# Summary of Audit Findings

# APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud & Corruption	Annual Governance Statement (for year 2017/18)	Q4	Draft								For consideration at April 2018 Audit Committee
<b>IN PROGRESS</b>											
ICT	Public Services Network Submission	Q3	In Progress								
Key Control	Serious and Organised Crime Checklist	Q4	In Progress								Completed by CFU
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								Transactional Testing Complete
Key Control	IR35	Q4	In Progress								
Key Control	Business World System Administration	Q3	In Progress								



# Summary of Audit Findings

# APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←→ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Human Resources		In Progress								Scope of HR review changed following request from CFU
<b>NOT STARTED</b>											
Governance, Fraud & Corruption	Audit Committee Effectiveness (Annual)	Q4									
ICT	ICT	TBC									
<b>ADVICE AND CONSULTANCY</b>											
Non Opinion	2020 Vision Programme	Ongoing									2020 programme concluded
Non Opinion	Cemetery and Crematorium Development	Ongoing									
Advice	Ubico	Ongoing									
Advice	Leisure and Culture Trust	Ongoing									Days to be carried forward into 2018/19
Advice	Parking Strategy	Ongoing									
Advice	Revised Arrangements for S151 Officer Role	TBC									Days to be carried forward into 2018/19
Advice	Change Programmes	Ongoing									

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Advice	Equality and Diversity	Ongoing									Scope changed from a Risk Based Audit to an Advice piece of work
Governance, Fraud & Corruption	Performance Management	Q4									Scope changed from a Risk Based Audit to an Advice piece of work
<b>OTHER INTERNAL AUDIT INVOLVEMENT</b>											
Advice	Management	Ongoing									
Follow Up	Safeguarding	Q4	In Progress								
Follow Up	2016/17 Follow Up Reviews	Ongoing									
	Contingency Days	Ongoing									
<b>DROPPED</b>											
ICT	Device Strategy										Days 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	
Non Opinion	2020 Vision Programme										Reduce number of days originally planned for support, days are allocated for drafting of AGS

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.

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.

● 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.

**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.

**Audit Assignments finalised since the last Audit Committee:**

Summary of 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.

**Section 106 Agreements and Funds – Reasonable 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 Section 106 Agreements and funds across Cheltenham Borough Council.

The aim of this audit is to provide assurance existing governance is robust enough to mitigate the risks associated with Section 106 Agreements and Contributions at Cheltenham Borough Council (CBC).

Section 106 Agreements and Contributions are identified by Planning Officers using their professional knowledge and experience and in accordance with agreed policy, and they are approved once the legal agreement is signed by all parties, any fees that are due have been received and planning permission has been granted. Section 106 data is recorded within password protected Excel spreadsheets saved on CBC's shared drive and responsibility for monitoring this data falls under the Enforcement officers. Our review found there is no current procedure documents or process structure, but Officers have a good understanding of their part of the process.

Evidence supports that Section 106 Agreement Contributions have been reported to Members during budget monitoring (June 2017). Planning Committee and Council meeting minutes, Planning application details and a 'Section 106 Legal Agreement Procedure and timetable' are available online for general public information, applicant guidance and transparency purposes.

Our review has found reasonable governance arrangements are currently in place, however, the online



guidance documentation should be reviewed along with the introduction of the Community Infrastructure Levy and any related systems and processes to ensure Section 106 Agreements and contributions are effectively managed.

Well controlled areas include:

- Approval and accountability - Every planning application processed by CBC has a Delegated Officer report which is signed off by the Development Manager-Applications or a designated senior officer before a decision notice is issued to the applicant / agent.
- Timeliness – Section 106 Agreements follow the statutory planning application determination deadlines. Within the legal agreement specific to each Section 106 is the timescale in which contributions need to be paid.

#### **Other GOSS Area – Health and Safety – Reasonable Assurance**

As part of the 2017-18 internal audit plan, a review was carried out to assess the Council's arrangements to ensure Publica Group Ltd (Publica) is compliant with the Health and Safety at Work Act 1974. CBC, CDC, FoDDC and WODC have collaboratively established, and joint own a limited company Publica, that provides several services on behalf of the Council. One such service is GO Shared Service (Health & Safety) (GOSS HS).

The Health and Safety at Work Act 1974 requires all employers to take reasonable steps to prevent accidents or harm occurring to their employees. It outlines a number of statutory requirements such as: hold a valid Health and Safety Policy; control risks within the organisation; provide first aid / incident arrangements; display the Health and Safety Executive poster; and hold valid employers' liability insurance. This review looked to provide assurance these statutory requirements were in place at the launch of Publica and that the Council remain compliant with its H&S obligations provided via GOSS HS.

Interviews were conducted with the GOSS HS Manager and Technician and evidence gathered from GOSS Insurance, the 2020 Programme team (the group tasked with setting up Publica) and the Council.

Health & Safety policy statements and employer's liability insurance were in place and available to Council officers. A suite of Health & Safety policies that evidence specific risks had been considered, such as Lone Working and Working at Height; we can confirm H&S policies have been approved by CBC.

The Regulatory Reform (Fire Safety) Order 2005 requires all employers to appoint a senior officer as 'responsible person'. This officer has responsibility for ensuring, as far as reasonably practical, the safety of his/her staff, and must be made fully aware of his/her responsibilities as well as receive a letter of appointment. The Chief Executive holds this position at Cheltenham Borough Council.

We made 2 minor recommendations that have been agreed with Publica, which do not impact on the Council's H&S arrangements.

#### **Accounts Payable (Creditors) – Reasonable Assurance**

As part of the 2017-18 internal audit plan, a review was carried out to assess the adequacy of the procedures and controls in place within Accounts Payable, based at the Forest of Dean District Council.

Accounts Payable (AP) processes all invoices and payment requests on behalf of a number of clients including Cheltenham Borough Council.

A modular approach was adopted this year, so this review did not cover all procedures carried out by AP. Over a three year cycle all AP procedures are reviewed and tested. This year the following areas were reviewed: management around receiving and processing supplier invoices; management of sundry supplier payments; appropriate approval of individual payments; controls around creating and approving payment files; mitigating controls to prevent duplicate payments; and the effect the launch of Publica Group Ltd (Publica) has on AP procedures. These processes were reviewed, and transactional testing was carried out on all supplier payments made during the period October 2016 to September 2017.

The below table contains a summary of the transactional testing for CBC:

Sundry Supplier Payments			
No. of Suppliers	Frequency	Value £	
27	2	34669	
6	3	2243	
3	5	5257	
1	11	7151	
Payment Duration			
Within 30 Days	Average Time		
95.6%	10.8 days		
Duplicate Payments			
Invoice Sample Size	Recovered	Outstanding at the time of the audit	Value Outstanding £
4104	5	2	9250.42

**Sundry Supplier Payments**

Sundry supplier payments are used when suppliers are not set up within Business World and future payments to the same supplier are unlikely. Using the sundry supplier method of payment increases demand on AP as all sundry payment details are verified by a second officer as part of the payment run process.

**Duplicate Payments**

Duplicate payments are considerably lower than reported in the previous year’s audit (39), although the

reasons for duplication are consistent with last year:

- Invoices being send to AP twice
- Supplier identification numbers being incorrectly entered
- Invoice numbers wrongly entered
- Payments processed using both PO and supplier invoice method

A new AP Team Leader was appointed in June 2016; procedures have been reviewed and additional controls have been implemented. This was evident from the transactional testing, as shown in the above table, as performance was seen to improve throughout the testing period. The AP Team Leader has also agreed to introduce a new quarterly process for the identification of duplicate payments so that refunds / credits can be reclaimed in a timely manner.

#### **Ubico Recyclates – No Assurance**

#### **Ubico Data Monitoring – Partial Assurance**

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures Cheltenham Borough Council (CBC) has in place in relation to Ubico (Recyclates and Data Monitoring) arrangements.

#### **Recyclates**

Ubico Ltd, on behalf of CBC, provides a waste and recycling service. Recyclates are collected within the borough at kerbside, and from various Bring Banks located around Cheltenham are brought into the Council's Bulking Facility together with recyclables collected from the Swindon Road Household Recycling Centre. Kerbside collections include household non-recyclable waste, kerbside recycling, garden and food waste.

At the time of the audit fieldwork (August/September 2017), kerbside collections were being completed with an ageing fleet which on occasion struggled to maintain recyclate separation during transportation due to the swing door becoming damaged and/or old. Cross contamination can reduce the recyclate value or add additional sorting costs. A waste and recycling review was carried out and a new fleet of collection vehicles has been purchased which have been operational since 16th October 2017. This new fleet has separate

sections within the vehicles that can be individually removed which reduces the risk of cross contamination.

It was established that a GOSS Business Partner Accountant (BPA) had been working, since joining GOSS 18 months ago, on matching up despatched recyclate loads with payments received from the re-processors. His work discovered that incorrect payments had been received and some payments had never been received. It was unclear who was responsible for ensuring timely and accurate payments from the re-processors to CBC. Without robust controls in place there is a risk that the Council may not be getting all monies due. This had been recognised as an area of concern and the service area/JWT have now introduced robust invoicing controls.

Our testing of the recyclate rates paid by re-processors demonstrated that CBC may not be realising its full income if the best value for money is not achieved. For example, steel cans were selected for testing and data for January to December 2016 was assessed. Testing showed that payments received were below the average rate paid according to the "LetsRecycle.com" site. This site was confirmed as the benchmark used by the Joint Waste Team Contracts Manager – Collection & Street Scene East (JWT CM), to agree rates with the re-processors. In addition, reliance is placed on one officer's experience which raises the risk of business continuation resilience should the officer be absent. This weakness was identified by the JWT CM and since the audit the Council has completed a re-procurement of the materials contracts and included a requirement for the re-processors to show how they calculate the price being offered against the Lets Recycle indices. This calculation is now used by the JWT CM to check the price being offered by the individual re-processors at each review point.

We are not able to offer any assurance as robust controls were not operating for the management of the Recyclate, although it is recognised that these weaknesses had been identified and were being addressed prior to this review.

#### Data Monitoring

WasteDataFlow is the web-based portal through which municipal waste is reported to the government. WasteDataFlow records recyclate performance information which is submitted by all local authorities and

annually produces data performance charts based on the percentage of recycling collected.

Data compiled by WasteDataFlow using the 2015/16 submissions shows that the recycling rate in Cheltenham was 45.4% which placed them 144th position out of 351. Cheltenham had, like the other authorities, improved in 2016/17.

Budget Monitoring activity was examined for Waste and Fleet management. Information was provided to confirm that Bi-monthly Environmental Services Programme Board (ESPB) meetings are attended by officers from Ubico, CBC, JWT, GOSS Finance and the Cabinet Member. Budget to date and financial projections, both favourable and adverse, are discussed, but there was no evidence that value for money was discussed or explored. In addition, recycle income which can fluctuate on a weekly basis is not discussed although we were advised that the JWT CM discusses this with the GOSS BPA on a quarterly basis. The JWT CM is now discussing this with the GOSS BPA on a monthly basis.

The reporting of Ubico performance is inadequate to give Cheltenham Borough Council assurance that the contract is performing as expected. Key Performance Indicators (KPIs) currently in place provide limited information and are concentrated around missed collections. They do not provide any level of detail that would provide assurance that the contract is performing well. The targets for the KPI's were set back in 2013 and brought forward each year without adjustment. We are aware the KPIs are currently being reviewed, however, at the time of the audit there was no target date for when they should be implemented.

In summary, at the time of audit fieldwork, we were unable to confirm sufficient challenge occurs when agreeing recycle rates or that sufficient controls were in place to ensure timely and accurate payments are received by the authority. We do recognise that the JWT CM had already picked this issue up and was working to improve so now some controls have been enhanced, and other areas are being addressed, so going forward these improvements should help the weaknesses identified.

The following are areas that would benefit from development:



- Recyclate income - Collection of recyclate income was inconsistent. We can confirm that invoicing controls have been implemented.
- Challenging of recyclate values - We understand that contracts have been reviewed with the recycling re-processors and greater clarity has been provided over how recyclate values are calculated and presented to CBC, but it is important to ensure that sufficient challenge still occurs to ensure that the best values can be obtained.
- Key performance indicators - Indicators that provide the Council with robust meaningful information should be set. It should be noted that steps were already underway to improve performance reporting measures prior to this Audit.
- Value for money considerations - Strategic discussions should focus on growth and efficiency opportunities, horizon scanning etc. Again, steps to bring about these discussions were initiated by the Lead Commissioner-Housing Services and Waste prior to this Audit.

