

Cheltenham Borough Council
Audit Committee – 29 September 2011
Internal Audit Monitoring Report

Accountable member	Cabinet Member Corporate Services - Councillor Colin Hay
Accountable officer	Audit Partnership Manager – Robert Milford
Accountable scrutiny committee	Economy and Business Improvement
Ward(s) affected	All
Key Decision	No
Executive summary	<p>The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered by AuditCotswolds, the council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report however is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p>There are no financial implications arising from this report.</p> <p>The investment in the Enterprise Resource Planning System (ERP) will address many of the control issues raised in the audit report for Payroll highlighted covered by this report.</p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>None specific arising from the report recommendation.</p> <p>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</p>

HR implications (including learning and organisational development)	<p>No additional HR implications arising from this report.</p> <p>Contact officer: Julie McCarthy, HR Operations Manager</p> <p>julie.mccarthy@cheltenham.gov.uk,</p> <p>01242 26 4355</p>
Key risks	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>
Corporate and community plan Implications	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i> (Chartered Institute of Internal Auditing UK & Ireland).</p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
Environmental and climate change implications	<p>One of the specialist skills now provided by the service is that of environmental auditing. This would therefore aid the Council in its environmental and climate change objectives.</p>

1. Background

- 2.1 The Annual Audit Plan was aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2011/12 plan, the Councils Corporate Strategy 2010-2015 was being reviewed and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the recently prepared Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.
- 2.2 There is also a requirement to support the work of the External Auditor (KPMG). This is in the form of financial audits governed by the Joint Working Agreement, and the governance audits to support such activities as Use of Resources.
- 2.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2. Reasons for recommendations

- 3.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Programme impacting on core financial systems, Shared Services impacting on core governance arrangements, etc.
- 3.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to move to a more flexible and risk based plan.
- 3.3 It should also be recognised that the service is now a partnership so coordinating resources across multiple organisations is critical to the success of the partnership.
- 3.4 This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

- 4.1 The internal audit service commenced quarter 1 with reduced resources due to maternity leave. However there is still the expectancy to complete the audit plan 2011/12 as planned. The partnership made use of existing staff to cover the maternity issue by acting up one senior auditor to principal level and increasing the days available to another senior auditor.
- 4.2 Internal Audit has concluded the following audits in quarter 1 and commenced quarter 2 work:

Audit	Report status	Assurance
Creditors	Final	Satisfactory
Payroll	Final	Limited

Car Parking	Final	Satisfactory
Performance Management	Final	Satisfactory
Annual Governance Statement Review	Final	N/A
Licensing	Draft	
Risk Management	Ongoing	
Governance Compliance	Ongoing	
Information Technology	Ongoing	

4.3 Further detail specific to each audit finalised is shown in **Appendix 1**.

4.4 The AuditCotswolds has also undertaken the following:

- Audit support for the GO-Programme* (see section 4 below)
- Audit support for the Local Authority* Company (see section 4 below)
- Health Check – Art Gallery and Museum
- Cheltenham Borough Homes – client (audit days delivered)
- Audit support for the Commissioning Programme
- Audit Support for the other key Change Programmes

4.5 Internal Audit was required to conduct one investigation that resulted in a report to the Police and a prosecution for theft.

4. *Possible changes to the Annual Audit Plan

5.1 The Audit Committee approved the plan for 2011/12 on the 23rd March 2011. Within the plan there was an element identified as 'risk based' and therefore was to remain flexible to ensure only current risks were reviewed. There are two key risks that have impacted on the audit plan; GO Programme and the Local Authority Company. Both of these elements have received increased levels of audit input either through assurance work or consultancy.

5.2 The Audit Committee should be aware that the Annual Audit Plan is likely to be changed in terms of 'Core Financial' and 'Risk Based' activity as these two projects continue. Detail on the work

conducted is summarise thus:

- 5.2.1 GO Programme – Audit support at programme board level, independent assessment of gateway reviews and results, advice on the implementation projects including coordinating implementation audit support at Forest of Dean, monitoring of risk assessments and highlight reports, etc
- 5.2.2 Local Authority Company – Audit support at Project Board level, advice on project governance, risk management and gateway review systems, advice at implementation level projects, etc
- 5.2.3 Both of these projects are going to require internal audit services from 1st April 2012 and therefore some audit management time has been allotted to the development of new audit structures and plans for this provision.
- 5.3 The level of involvement the internal audit service has within the Cheltenham Borough Council change programmes is substantial but it is considered necessary when there is such a high level of risk with such significant changes being introduced

5. Follow-up of recommendations – monitoring and review

- 5.1 At the last Audit Committee meeting (22nd June 2011) the committee requested details of the follow-up processes in place in the internal audit service. The process is summarised below:
 - 6.2.1 For every audit conducted there could be recommendations generated. These recommendations are recorded in an action table in the final report. These recommendations include a statement of the risk the recommendation is mitigating. This enables management to consider the recommendation in light of the risk they could carry if the recommendation is not implemented. During the 'mop-up' (final meeting) with management, the recommendations are discussed. The manager has the responsibility for the control framework and therefore is responsible for the action to mitigate the risk. It is possible for the manager to accept the risk and therefore not take any additional action.
 - 6.2.2 Once the recommendation action plan has been completed this is then issued as part of the final report to management and the agreed circulation. This will include the Director of Resources as normal practice.
 - 6.2.3 In six months time the recommendations are reviewed for progress. If satisfactory progress is not made then this is raised with management, and if necessary with the Director of Resources or Audit Committee.
 - 6.2.4 Where an audited area has received a 'limited' assurance opinion then there is a full follow-up to assess the progress of the service in improving the control framework. In 2010 Payroll was given a limited assurance opinion and as such has continued to be monitored by the audit service.
 - 6.2.5 For every audit conducted one of the objectives is to check recommendation implementation from previous audits in the service area. Failure to implement recommendations is an influencing factor for the assurance opinion for the latest audit. Where recommendations have not been implemented they are carried through to the new action plan.
- 6.3 The monitoring report in Appendix 1 has included comments from the audit reports on follow-up of recommendations. For work conducted later this year there will be a new part to this monitoring report that will detail the follow-up undertaken by the audit team and the results. This is being built into our new operational manuals.

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Appendices	1. Internal Audit Monitoring Report
Background information	

