

Cheltenham Borough Council

Internal Audit Annual Report and Opinion 2018/19

Contents

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Summary:

Purpose & Background Page 1-2

Annual Opinion Page 3-5



Summary of Audit Work:

Internal Audit Work Programme Page 6

Significant Corporate Issues Page 7

Summary of Audit Opinions 2018/19 Page 8

Priority Actions Page 9



Plan Performance:

Added Value Page 10

SWAP Performance Page 11



Appendices:

Appendix A – Summary of Work Plan Page 12-17

Summary

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes.
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Summary

Three Lines of Defence

To ensure the effectiveness of an organisation's risk management framework, the Audit Committee and Senior Management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- The first line of defence – functions that own and manage risk.
- The second line of defence – functions that oversee or specialise in risk management and compliance.
- The third line of defence – functions that provide independent assurance.

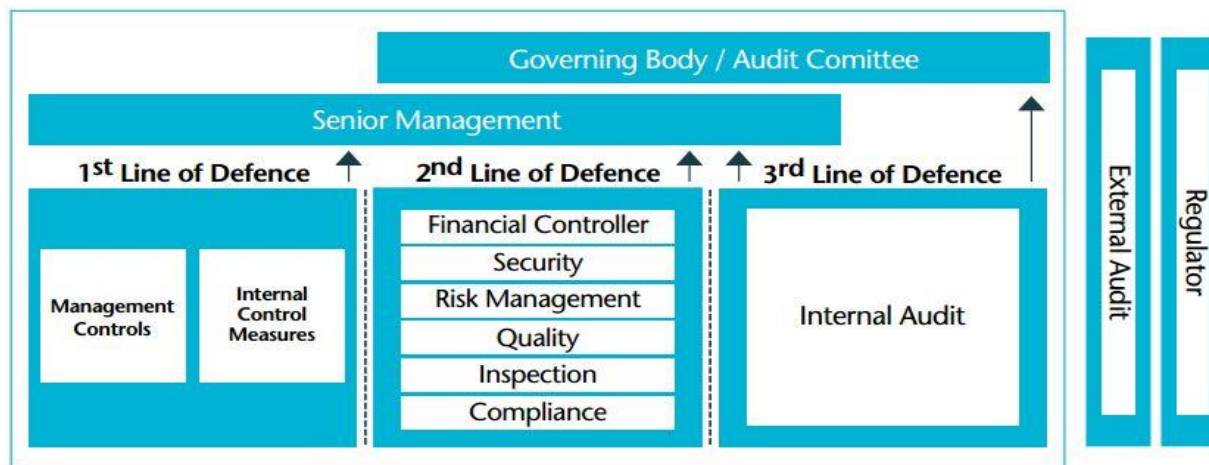
Scope

The Internal Audit service for Cheltenham Borough Council is provided by SWAP Internal Audit Services Limited (SWAP). The team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the organisation's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and the Audit Committee. This report summarises the activity of the Internal Audit Team for the 2018/19 year against the Internal Audit Plan (approved by the Audit Committee, April 2018).

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

Three lines of Defence Model



Chartered Institute of Internal Auditors, December 2015

Internal Audit Annual Opinion 2018/19

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

Annual Opinion

I have considered the balance of 2018/19 audit work, the assurance levels provided, the profile of each audit and outcomes, together with the response from Senior Management and am able to offer '**Reasonable Assurance**' in respect of the areas reviewed during the year. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

Internal Audit's work has been guided by the Annual Audit Plan and emerging risks identified by Senior Management; therefore, we have not reviewed all risks and assurances relating to Cheltenham Borough Council and Publica (where appropriate) and cannot provide absolute assurance on the internal control environment. Senior Management and Members are ultimately responsible for ensuring an effective system of internal control.

The Annual Opinion is made based on the following sources of information:

- Completed audits (during 2018/19) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from advisory / consultancy support.
- Follow-Up of previous audit activity, including agreed actions against recommendations.
- Significant / material risk where management has not accepted the need for mitigating action.

Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice / consultancy work and the assurance mapping records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Over the year, the Audit Team have found that Senior Management of Cheltenham Borough Council and Publica to be generally supportive of Internal Audit findings and responsive to recommendations made. In addition, there is a good relationship with management whereby they feel they can approach the Audit Team openly in areas where they perceive potential problems.

Internal Audit Annual Opinion 2018/19

Audit Opinion Continued

We have completed 31 reviews for Cheltenham Borough Council, including assurances over Publica's control framework. The completed reviews consist of assurance pieces of work, follow-ups, advice and consultancy and non-opinions.

A number of audits (6) are at draft report stage and are still in the process of being finalised. A verbal update on the progress of these reports will be provided at the meeting. These reports and assurances will be included in the 2019/20 Annual Opinion.

In agreement with Management, and previously reported to this meeting some reviews were exchanged, removed or deferred from the approved plan, as the need to respond to new and emerging risks was identified. Any new, or unplanned, audit work has been included in the annual plan and can be identified with an *.

All recommendations made are followed up by the Audit Team. The team have not raised any additional concerns over the delay / non-implementation of recommendations.

Determining whether risk management processes are effective is a judgement resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's priorities.
- Significant risks are identified and assessed.
- Appropriate risk responses are selected that align risks with the organisation's risk appetite.
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and members to carry out their responsibilities.

It is also worth noting the 'Non-Opinion' audits during 2018/19. Given the level of change within the company (Publica) that provides the Council with Finance & HR services, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we were involved in a key area of change, namely Transformation. Although no opinion is offered with this work, details of the work and findings are shared with Senior Management and the Committee and an action plan to address areas for improvement is agreed.

Internal Audit Annual Opinion 2018/19

The Modernisation programme continuing into 2019/20, will bring significant change to working practices and delivering services. Acceptable risk taking will be required to deliver the programme successfully and to maintain Council services during this change period. SWAP Internal Audit Services will work with the team to provide guidance and advice as required.

Summary of Audit Work 2018/19

Our audit activity is split between:

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

Internal Audit Work Programme

The schedule, included in the report (pages 13-17), contains a list of all audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the year. In total, 45 pieces of work were commissioned. 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.

The 45 reviews in the 2018/19 audit plan are broken down as follows:

Type of audit	2018/19 plan
• Governance Audits	3
• Key Financial Control Audits	12
• ICT Audits	6
• Operational Audits	8
• Follow-Up Audits	4
• Advice and Consultancy	10
• Grant Certification	2
• TOTAL	45

Summary of Audit Work 2018/19

Significant Corporate Issues

Identified Significant Issues should be brought to the attention of Members.

Significant Corporate Issues

We have not identified any significant issues / areas during the course of our audit programme of work for 2018/19.

Summary of Audit Work 2018/19

SWAP Performance - Summary of Audit Opinions

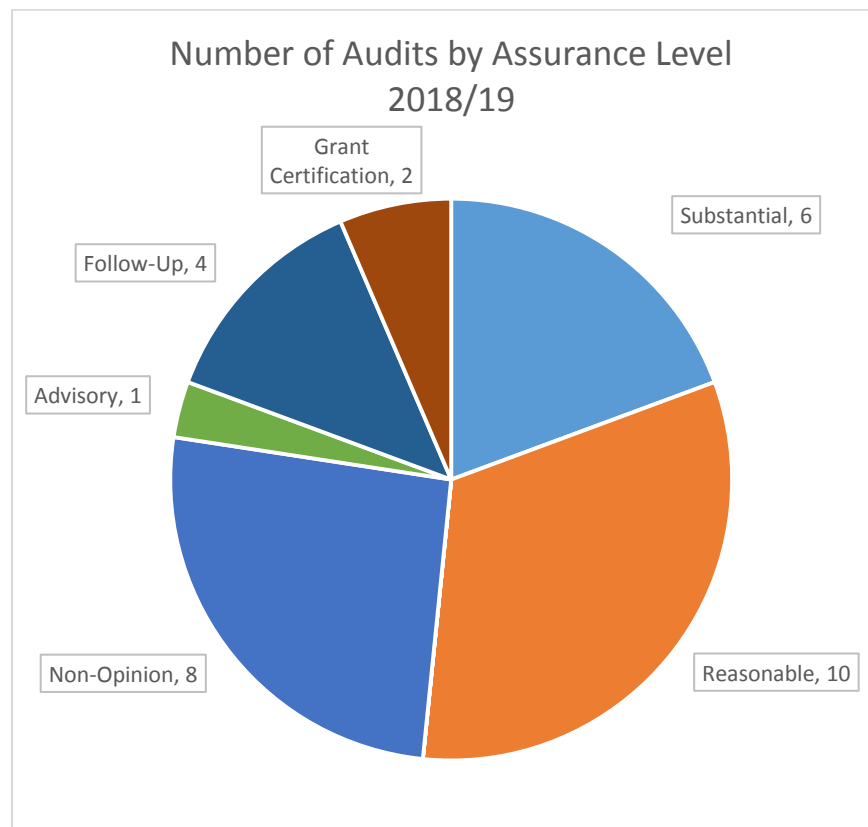
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance

We also undertake 'non-opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Summary of Audit Opinion

The following chart is a summary of all the reviews finalised / completed during 2018/19.



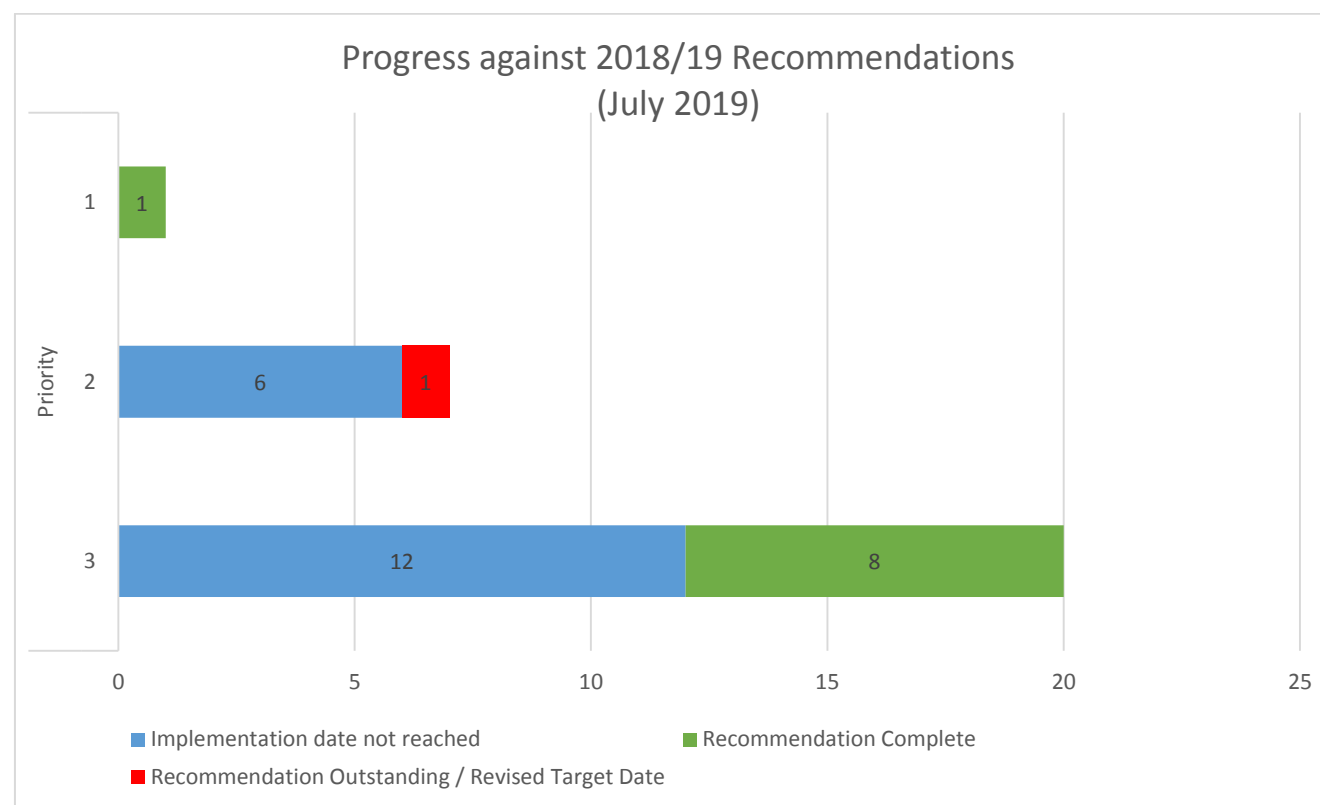
Summary of Audit Work 2018/19

SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being major concern requiring immediate corrective action and 3 being minor or administrative concerns

Priority Actions

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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited.



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP, we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to our audit plan, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where Cheltenham Borough Council has requested or participated in enabling us to produce benchmarking reports across the partnership:

- Regular updates highlighting emerging risks and key issues.
- Best practice information for Bed and Breakfast VAT Charges.
- Identification and assessment of best practice for authority Business Continuity Plans.
- Comparison of Anti-Fraud and Corruption Policies and Strategies
- Car Parking – comparison requested to assess areas to consider for improvement to service or increase income.
- Comparison of Procurement arrangements.
- Members Training Events.

Plan Performance 2018/19

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).



SWAP Performance

SWAP's performance is subject to regular monitoring and review by the (SWAP) Board and Member Meetings. The respective outturn performance results for Cheltenham Borough Council for the 2018/19 year are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u>	
Final Report / Complete	69%
Draft Report	13%
In progress	4%
Deferred to 2019/20	13%

Internal Audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework on Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). Both standards require Internal, and External, Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP was found to be in conformance with the International Professional Practices Framework and the Public Sector Internal Audit Standards (PSIAS). As a result of the External Assessment, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other company and Cheltenham Borough Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

The schedule below contains a list of audits agreed for inclusion in the 2018/19 Annual Audit Plan and the final outturn for the financial year. Audits completed that were not in the original plan reported to Audit Committee are indicated with an *.

At the conclusion of an audit assignment a 'Control Assurance' is awarded. A summary of the assurance levels is as follows:

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

Non-Opinion/Advice – 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 assigned a priority rating based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Finalised / Completed Audits							
ICT	Protection from Malicious Code	Position Statement	Non-Opinion	-			
ICT	ICT Policies	Final Report	Reasonable	1			1
ICT	Public Services Network Submission (PSN)	Final Report	Reasonable	2			2
Key Financial Control	Fighting Fraud Locally	Final Report	Reasonable	5		1	4
Key Financial Control	Serious and Organised Crime Audit and Checklist	Final Report	Reasonable	1			1
Governance	Annual Governance Statement	Final Report	Substantial	-			
Operational	Planning	Position Statement	Non-Opinion	-			
ICT	Data Protection Act 2018 (GDPR)	Final Report	Reasonable	1		1	
Operational	Regulatory Awareness and Compliance	Complete	Non-Opinion	-			
Operational	Members and Officers Gifts and Hospitality and Declarations of Interest	Final Report	Reasonable	5		2	3
Operational	Business Continuity Management	Final Report	Reasonable	5	1	3	1
Operational	Discretionary Housing Payments	Final Report	Reasonable	5			5

Audit Type	Audit Area	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor		
					Recommendation		
					1	2	3
Key Financial Control	Revenues and Benefits						
	<ul style="list-style-type: none"> Council Tax and NNDR 	Final Report	Substantial	-			
	<ul style="list-style-type: none"> Housing Benefit / Council Tax Support 	Final Report	Substantial	2			2
Key Financial Controls	Core Financials						
	<ul style="list-style-type: none"> Accounts Payable 	Final Report	Substantial	1			1
	<ul style="list-style-type: none"> Accounts Receivable 	Final Report	Reasonable	2		1	1
	<ul style="list-style-type: none"> Treasury Management and Bank Reconciliations 	Final Report	Substantial	1			1
	<ul style="list-style-type: none"> Main Accounting 	Final Report	Substantial	1			1
	<ul style="list-style-type: none"> Payroll 	Final Report	Reasonable	4			4

Audit Type	Audit Area	Status	Comments
Follow-Up Audits			
	Ubico Recycles	Final Report	
	Ubico Data Monitoring	Final Report	
	Safeguarding	Final Report	
	Serious and Organised Crime and Fighting Fraud and Corruption	Final Report	Follow-up, with the CFU, of the recommendations made in the 2017/18 audits
Grant Certification Work			
	Disabled Facilities Grants	Complete	
	Disabled Facilities Grants (Additional Funding)	Complete	
Work Incomplete as at 31st May 2019			
Operational	Procurement and Contract Management	Draft Report	
Key Financial Control	Systems Admin	Draft Report	
Key Financial Control	Human Resources	Draft Report	
Key Financial Control	Procurement	Draft Report	

Audit Type	Audit Area	Status	Comments
ICT	Cybersecurity	Draft Report	
Operational	*Integrity of Data	In Progress	
Advice and Consultancy			
	Equalities and Diversity	Complete	
	Cemetery and Crematorium Development Programme	Complete	
	Parking Strategy and Task Force	Complete	
	Benefits Realisation (Publica)	Draft Report	
	Transformation Programme (Publica)	Position Statement	
	*DFG Process	Complete	
	*Ubico Financial Review	Final Report	
Audits deferred /removed from the Plan during the year			
Operational	Corporate Culture		Audits deferred to 2019/20 and will be undertaken to support the Modernisation Programme
Advice and Consultancy	Workforce Strategy		
ICT	Members ICT		Audit deferred due to changes in Members ICT arrangements

Audit Type	Audit Area	Status	Comments
Advice and Consultancy	P & ED Transformation Programme		Audit carried forward to 2019/20 to support modernisation
Governance	Risk Management		Request for deferral by client, as planned audit won't add any value due to proposed changes in system
Governance	Performance Management		Audit removed, with agreement of client, days allocated to Integrity of Data audit
Advice and Consultancy	Commissioning		Audit deferred to 2019/20