Cheltenham Borough Council

Report of Internal Audit Activity

Plan Progress 2019/2020
September 2019

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Internal Audit Plan Progress 2019/2020

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 Internal Audit Plan. This is approved by the Section 151 Officer (Executive Director – Finance and Assets), following consultation with the Council's Management Team. The 2019/20 Audit Plan was reported to, and approved by, Audit Committee at its meeting in April 2019.

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

SWAP 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 Application Note.

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Outturn to Date:

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

● **Internal Audit Work**

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 A** of this document.

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Internal Audit Plan 2019/20. 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.

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, are identified.

Further information on all the finalised reviews can be found within **Appendix C**.

At **Appendix D** we have included a schedule of the high priority recommendations (priority 1s and 2s) that have been identified during our audit reviews. These will be updated when the follow-up audit has been completed.

Appendix E summarises all recommendations made and the progress that has been made against these.

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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 2019/20 is detailed in **Appendix B.** 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 (Executive Director – Finance and Assets).

The following changes have been made to the plan:

We have been requested to undertake an audit on Property (Use of Contractors), to allow us to undertake this review we have removed the audit on Commissioning which was brought forward from 2018/19.

We have also been requested to undertake a piece of work on Planning Process and complaints procedure, the days for this audit will be taken from Contingency.

The audit on Business Rates Reset has been deferred at this time due to the slow progress at national level on the new Business Rates Scheme (due to come into effect April 2020).

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

- **No Assurance**
- **Partial**
- **Reasonable**
- **Substantial**

●   Audit Framework Definitions

Control Assurance Definitions

No 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.
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 – 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.

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Recommendations are prioritised from 1 to 3 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.

Categorisation of Recommendations	
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.

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

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
2018/19 Audits in Draft / In Progress at Annual Opinion									
Operational	Procurement and Contract Management		Draft Report						
Key Financial Control	Systems Admin		Final Report	Reasonable	7		2	5	See Appendices C & E
Key Financial Control	Human Resources		Draft Report						
Key Financial Control	Procurement		Draft Report						
ICT	Cyber Security		Draft Report						
Operational	Integrity of Data		Draft Report						
Advice and Consultancy	Benefits Realisation		Draft Report						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
2019/20 Audit Plan									
Governance	Annual Governance Statement	1	In Progress						
Operational	Management and Monitoring of Contracts	1							
Operational	Asset Management	1							
Operational	Commercial Property / Investment Property	1							
Operational	Safeguarding	1	In Progress						
Operational	Remote Workers	1	Draft Report						
Operational	Commissioning (2018/19)	1	Audit Removed						See note on page 3
ICT	Software as a Service – Cloud Provision	1	ToE Issued						
ICT	Software as a Service – Dataset Management	1	ToE Issued						
Follow-Up	Ubico Financials	1	Final Report	Substantial	1			1	See Appendices C
Follow-Up	Business Continuity Management	1							
Operational	(NEW) Property (Use of Contractors)	1	In Progress						See note on page 3

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SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Affordable Housing	2							
Operational	Business Rates Reset	2	Deferred						See note on page 3
Operational	Apprenticeship Scheme	2	In Progress						
ICT	Cyber Security – Incident Management	2							
ICT	Cyber Security – High Risk Area (defined from 2018/19 audit)	2							
Grant Certification	Disabled Facilities Grant Certification	2	Complete						
Operational	(NEW) Planning Process and Complaints Procedure	2	In Progress						See note on page 3
Key Financial Control	Revenues and Benefits	3							
	• National Non-Domestic Rates								
	• Council Tax								
	• Council Tax Benefit								
Key Financial Control	Core Financials	3							
	• Accounts Payable								
	• Accounts Receivable								

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
	• Main Accounting								
	• Payroll								
	• Treasury Management and Bank Reconciliation								
Key Financial Control	Systems Administration	3							
Key Financial Control	Human Resources	3							
Key Financial Control	Other Support Service provided by Publica • Health and Safety	3							
ICT	Management of Service Provision	3							
ICT	ICT Business Continuity	3							
Grant Certification	Disabled Facilities Grant Certification – Additional Grant	3	In Progress						
Governance	Risk Management	4							
Governance	Performance Management	4							
Operational	Planning Applications	4							
Operational	Publica Transformation Benefits Realisation	4							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Operational	Corporate Culture	4							
Follow-Up	Follow-Up of Recommendations made in Substantial and Reasonable Audits	1 – 4	On Going						
Follow-Up	Follow-Up of Control Weaknesses identified by the Counter Fraud Unit	3 – 4							
Advice and Consultancy	Workforce Strategy	1 – 4							
Advice and Consultancy	Support to the Publica Transformation Programme	1 – 4	On Going						
Advice and Consultancy	Assurance to the Partner Councils in respect of the Publica Transformation Programme	1 – 4							
Advice and Consultancy	Support for any emerging groups / programmes / projects • Town Centre Team Project Board	1 – 4	On Going						
Advice and Consultancy	Support to the service responsible for Recyclates	1 – 4							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Priority			Comments
						1	2	3	
Other Audit Involvement	Working with the Counter Fraud Unit	1 – 4							
Other Audit Involvement	Management of the IA Function and Client Support	1 – 4	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks								

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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.

2018/19 Systems Administration – Reasonable Assurance

Background

Publica Group provide ICT infrastructure and support services on behalf of Cheltenham Borough Council (CBC), Cotswold District Council (CDC), Forest of Dean District Council (FoDDC) and West Oxford District Council (WODC).

As part of this service, Publica have written the ICT and Security Policies in place across Publica, CBC, CDC, FoDDC and WODC, although at the time of writing the Policy is awaiting full approval at CBC. The Security Policy framework incorporates an Access Control Policy which defines the required security controls for the provision of access and permissions to the councils' network and applications. Robust identity and access management processes and access controls are fundamental to help ensure the confidentiality, integrity and availability of an organisation's systems and data.

The Publica ICT team are responsible for the administration of the ICT estate however for certain applications, systems admin duties including access control fall within the service areas themselves and are not the sole responsibility of the ICT team.

Business World, the main financial system in use across the authorities, is managed by a dedicated systems admin team within Publica ICT. At Cheltenham Borough Council, Civica OpenRevenues and Civica Cash Receipting system admin duties are the responsibility of experienced team managers of those service areas. The Civica Cash Receipting system at CDC, FoDDC and WODC has a dedicated ICT system administrator who is also able to support CBC.

Audit Conclusion / Findings

Overall, the systems admin user access controls and processes reviewed for the business applications used by Publica and the Councils were found to be adequately controlled. The recommendations made within this report apply to processes across all business systems to improve internal controls and management of risks.

Those employees with systems admin responsibilities that were interviewed, are knowledgeable and understand their responsibilities and systems well.

A Security Policy framework is in place and incorporates an access control policy. An end to end access control process should be closely aligned to the Policy, fully documented and communicated widely. Whilst a process is generally followed by most teams, a recommendation has been made to document, align and ensure coverage of an Identity and Access Management process across all systems and for local procedures to be documented or updated to align with the overarching policy and process.

Application settings should reflect the requirements stipulated in the Security Policy. A recommendation is made for the Policy to be issued to and reviewed by the system administrators so that any discrepancies are captured, remediated or risk managed.

Regular access reviews are not currently performed, and a review of system access levels highlighted a need for this secondary control. In line with the Policy, a recommendation is made to undertake and document regular reviews of all access across all systems to ensure employees access is current, required and accurate according to job role and responsibility.

We were advised that the recommendations from the external auditor, Grant Thornton's ICT audit of 2018 are in progress.

Priority	Recommendation	Management Response	Due Date
2	We recommend a principal Identity and Access Management process detailing requirements for 'Joiners, Movers and Leavers' is developed and documented and that complies with the requirements set out in the Information Security and Access Control Policy. The overarching process should apply to and embrace all systems that may not be included within the standard ICT	Our team ICT Administrators are now updating and documenting our Access Management system process for joiners, Movers and Leavers. A change control process will be introduced that will document significant changes to the ICT infrastructure which will also align to our ICT User Policies and guidances.	31st March 2020

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		team scope and should be available for all employees to view and follow. System administrators should then document or update local processes and procedures that should be in alignment with the overarching policy and process requirements. and documented on a quarterly basis as per the requirements of the Risk Management Policy		
	2	We recommend that officers with systems administration responsibilities are requested to review the Security Policy and its requirements, perform a gap analysis on their current system settings and processes and devise a plan to implement those changes to ensure continued compliance with the Policy. Should it not be possible to make changes for any reason, they should be risk assessed and documented on the ICT risk register or policy exception register. Priority	We agree with the password setting findings and risks with on systems Business World and Civica applications. However at present these risks are mitigated by the Active Directory (AD) password settings. Both Business world and Civica systems users only access these systems via the AD. We also comply with the HMG National Cyber Security Centre (NCSC) password guidance on our network. However, we will seek to review all passwords policy setting on both applications. Our ICT Risk register will be updated to reflect these security risks and mitigations.	31st December 2019

19/20 Ubico's Accounting of Fleet Maintenance – Substantial Assurance

Background

In 2018 Cheltenham Borough Council requested a review of Ubico's fleet maintenance processes following the receipt of an invoice for the maintenance of Cheltenham's in-house fleet vehicles. This invoice appeared to be too high for the amount of work carried out and no supporting documentation was available on request. We reviewed Ubico's process to manage records of maintenance and servicing of their partners' fleet vehicles and equipment at the Cheltenham

depot.

The initial review involved an overarching review of Cheltenham and Tewkesbury's Cost centres within Ubico's financial system (Business World) to identify potential areas of spend where Cheltenham were being charged for work carried out on other partner's vehicles/equipment. Following this initial testing the following areas of spend were tested further using records maintained by Ubico's fleet services team: - Hires - Tyres - Spare Parts - Fuel
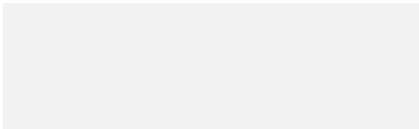
Our review found that, although processes to record expenditure related to fleet maintenance had recently been improved, during our testing period (2017/18) £72,878 of spend accounted to the Cheltenham contract was for vehicles of other partners.

A recommendation was made to Cheltenham Borough Council, to request repayment from Ubico and carry out a follow-up review to test the performance of the new processes introduced at the time of the original audit. Following agreement from Ubico's Financial Director, Cheltenham Borough Council raised an invoice for £70,390.80, which was paid on 28th February 2019.

Audit Conclusion / Findings
We are pleased to offer Substantial Assurance over the management of fleet maintenance records by Ubico fleet administrators. Records that itemise expenditure against individual vehicles were found to be thorough and accurate. A full audit trail, from work carried out on fleet vehicles to costs charged to the Council, is maintained and easily available.

Circa £1,193,000 worth of payments made during the test period were reviewed. £5,769 of supplier payments were found to be incorrectly coded to Cheltenham Cost centres (within the Ubico client in Business World) when they should have been charged to other partner Councils. A recommendation has been made to prevent future mistakes in coding supplier payments and the transactions highlighted to the Business Partner Accountant to make the appropriate corrections.

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Audit Name	Priority	Recommendation	Management Response	Due Date	Update September 2019
2018/19 Data Protection Act 2018	2	To comply with the Policy Framework (Appendix C) of the Constitution, the revised ICT policies must be formally approved by Senior Management.	Policies are going to be reviewed by CMT board on the 12th February 2019.	28/02/19	Polices approved August 2019 Recommendation Complete
2018/19 Business Continuity Management	2	Consideration could be given to aligning the BCP with the international standard ISO22301, as this provides a framework to plan, establish, implement, operate, monitor, review, maintain and continually improve a business continuity management system.	Consideration will be given to aligning the BCP with the international standard ISO22301 following the review of the Business Continuity Planning process which will be undertaken by the Civil Protection Team after April 2019.	30/06/19	Follow up audit will be undertaken in autumn 2019.
2018/19 Business Continuity Management	2	Consideration should be given to the clarity of the existing template and its ability to guide an officer in difficult and stressful times, and adopting an existing template, to better meet the authority's responsibilities.	An independent review of the CBC BCPs has been agreed with the Civil Protection Team this will commence after April 2019 when resources become available. The Corporate BCP will be identified as the first plan to be reviewed.	30/06/19	Follow up audit will be undertaken in autumn 2019.
2018/19 Business Continuity Management	2	Consideration could be given to the utilising the out of hours automated phone system, already in place, as an emergency information line for providing information to staff and / or the public if other methods of communication are down.	Consideration will be given to utilising the out of hours automated phone system already in place as an emergency information line after the review of the Business Continuity Plans.	30/06/19	Follow up audit will be undertaken in autumn 2019.
2018/19 Accounts Receivable	2	A review of all active subscriptions should be carried out, on behalf of each client, to identify any other duplicate subscriptions and these should all be corrected. Priority	Agreed. This will be carried out. Additional training will also be provided to AR officers to prevent this occurring again in the future.	31/03/19	Will be followed up during the annual audit of Accounts Receivable.

Audit Name	Priority	Recommendation	Management Response	Due Date	Update September 2019
2018/19 Members' and Officers' Gifts, Hospitality and Declarations of Interest	2	We recommend that consideration is given to work between CBC and the Counter Fraud Unit (CFU) to refresh the approach to the declarations process as part of their planned work discuss the introduction of a risk-based approach to conflict of interest forms in 2019/20. Priority	The CFU manager agrees to review this with the support of SWAP and Governance Group as part of the 2019/2020 work plan. The Programme Manager agrees to work with the CFU to review their risk-based approach and see if this is appropriate for implementation at CBC.	31/03/20	Work ongoing.
2018/19 Members' and Officers' Gifts, Hospitality and Declarations of Interest	2	We recommend that actions are taken to increase officer awareness on the responsibility to declare interests, gifts and hospitality. This may include (but not be limited to): - Regular reminders posted on the staff intranet - Sending out email reminders - Periodic training	The Programme Manager agrees to increase officer awareness through reminders on a quarterly basis and ensure periodic training is undertaken.	30/04/19	We were advised that this recommendation will be actioned via a new learning & development system that has been purchased. Agreed to extend implementation date to 30/06/20.

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Progress against 2017/18 Recommendations (July 2019)

Progress against 2017/18 Recommendations (Sept 2019)

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Progress against 2018/19 Recommendations (July 2019)

Progress against 2018/19 Recommendations (Sept 2019)

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