

**Cheltenham Borough Council**  
**Audit Committee – 21 March 2012**  
**Internal Audit Annual Plan**

<b>Accountable member</b>	<b>Cabinet member corporate services - Councillor Colin Hay</b>
<b>Accountable officer</b>	<b>Audit Partnership Manager – Robert Milford</b>
<b>Accountable scrutiny committee</b>	<b>Economy and business improvement</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	The Council must ensure that it has sound systems of internal control which facilitate effective management of all the Council's functions. The work planned by Audit Cotswolds, the Council's internal audit service, is one of the control assurance sources to the Audit Committee and Senior Leadership Team and which supports the work of the external auditor. The work is also a key component of the Council's governance framework and an assurance source supporting the Annual Governance Statement, which forms part of the statutory accounting standards.
<b>Recommendations</b>	<b>The Audit Committee approves the Internal Audit Plan for 2012/13</b>

<b>Financial implications</b>	There are no financial implications arising from this report.  <b>Contact officer: Mark Sheldon, Chief Finance Officer</b> <a href="mailto:mark.sheldon@cheltenham.gov.uk">mark.sheldon@cheltenham.gov.uk</a>  <b>01242 264123</b>
<b>Legal implications</b>	None specific arising from the report recommendation.  <b>Contact officer: Peter Lewis,</b> <a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury.gov.uk</a>  <b>01684 272012</b>
<b>HR implications (including learning and organisational development)</b>	No additional HR implications arising from this report.  <b>Contact officer: Julie McCarthy, HR Operations Manager</b> <a href="mailto:Julie.mccarthy@cheltenham.gov.uk">Julie.mccarthy@cheltenham.gov.uk</a>  <b>01242 264355</b>

<p><b>Key risks</b></p>	<p>The audit plan has been derived from consultation with the Senior Leadership Team and through the reference to relevant policy, strategy and protocol documents including the risk register. The plan is designed to capture key and emerging risks that this Council faces over the year and therefore the plan will remain as flexible as possible to ensure internal audit resources remain focused and valued.</p> <p>Internal audit activity is needed each year to satisfy assurance requirements. For example, internal audit review key financial systems annually because the external auditors rely on this in their own work on final accounts under the Joint Working Agreement. In addition, the requirement for the Council to review its system of internal control and governance procedures means that assurance is required on systems and procedures relating to the compilation of the Annual Governance Statement. If this work is not completed by the Internal Audit additional fees from external audit may be incurred.</p> <p>Furthermore Internal Audit is a statutory function under the Accounts and Audit (Amendment)(England) Regulations 2006, in that a relevant body must: "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."</p> <p>The risk of failure to deliver core elements of the plan will be mitigated through the Partnership Board monitoring process. The representative from Cheltenham BC is Mark Sheldon (Director of Resources). The Partnership Board's terms of reference were noted by Audit Committee on the 30<sup>th</sup> September 2009. Furthermore Audit Committee will continue to receive quarterly reports through 2012/2013 from Internal Audit detailing the work undertaken in relation to the plan.</p>
<p><b>Corporate and community plan Implications</b></p>	<p>The delivery of an effective internal audit service supports the control arrangement across the Council's priority areas. This is identified in the audit plan.</p>
<p><b>Environmental and climate change implications</b></p>	<p>There are no direct environmental and climate change implications arising from this report.</p>

## **1. Background**

- 1.1** 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. The development of the GO Shared Service (including the Enterprise Resource Planning [ERP] system) is the most significant change to the core financial management process and governance systems.
- 1.2** Therefore Audit Cotswolds as the Internal Audit provider needs to be responding to the changing environment and the areas where the organisation now requires assurances. This reinforces the requirement for Internal Audit to follow a more flexible and risk based plan.
- 1.3** It should also be recognised that the audit partnership has two further clients with Ubico and GO Shared Services; so coordinating resources across multiple organisations is critical to the success of the Audit Cotswolds partnership.

## **2. Annual Plan**

- 2.1** The development of the annual plan has been 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. In preparing the 2012/13 internal audit plan, consideration has been given to the Councils Corporate Strategy 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 Medium Term Financial Strategy and change programme agendas.
- 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, along with governance audits to support the External Auditors programme of work.
- 2.3** The core financial systems delivered to the Council by the GO shared service will be covered within the GO shared service audit plan. Audit Cotswolds will be delivering this plan which will provide;
  - assurance to the GO shared service management team over the controlled delivery of the service level agreements,
  - assurance to this Council over the delivery of its services, including its core financial systems,
  - the required support to the external auditor as outlined in the Joint Working Agreement.
- 2.4** The audit plan also needs to consider 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.
- 2.5** The impact of changes to legislation on the Council, like the Localism Act and the current economic climate is expected to continue to impact on the work of audit as it seeks to support the Council through these challenging and changing times.
- 2.6** In-year processes:
- 2.7** The plan outlines a preferred programme of work which was developed through to early February before I unfortunately was taken sick. The final planned consultations have not been as comprehensive as I would have liked, but the plan is not 'set in stone'. The risk based theme and the assessments made at the planning stage may well differ during the year, and so these will be revisited in some detail during the first quarter. With this in mind I will rely on feedback from SLT,

the Programme / Project boards on new and evolving risk areas, and areas where the control environment will change as a result of changes in management arrangements, working practice and externally driven change. This is particularly relevant in 2012/2013 with the projects driven by the change programmes like Strategic Commissioning. Significant variance from the plan will be identified to Audit Committee through the quarterly monitoring reports.

## **2.8 Value for Money (VFM):**

**2.9** VFM is an important feature of internal audit work and exploring opportunities for improving VFM is a feature of all audits undertaken. Specific provision has been made in the plan to continue to provide input to the Council's 'Bridging the Gap' work streams and any other work linked to service reviews.

## **2.10 Audit partnership working (update):**

**2.11** During 2011/12 the partnership audit service with Cotswold District Council and West Oxfordshire District Council continued to develop and consolidate. The partnership ethos and culture evolved; new staff was appointed and existing staff continued to develop through internal and professional training. From 1 April 2012 the partnerships will be hosted by Cotswold DC under a Section 101 agreement.

**2.12** The Director Resources continues to represent Cheltenham Borough Council on the Audit Partnership Board and the Audit Partnership Manager is now firmly established in the role of Head of Internal Audit for Cheltenham Borough Council. The quarterly reports to Audit Committee will continue to be used to assist the Audit Committee in the monitoring of the audit partnership and its activities.

**2.13** Attachment A shows the annual audit plan for 2012/2013 and is broken down into two categories:

- Core Financial and Governance Audits (CFGAs)
- Risk Based Audits (RBAs)

**2.14** The CFGA work is fundamental to the work requirements of the Joint Working Agreement with the External Auditor (KPMG) and, as such, this work must be delivered annually. The Governance work is key to supporting the organisation as a public body and the requirements of such reports as the Annual Governance Statement. RBA work is where flexibility is expected. Currently RBA reflects the key risks identified for 2012/2013, however, it will remain subject to review to ensure it continues to reflect the risk and enables assurances to be given over the controls in place to mitigate these risks. Finally, Health Checks days are available as part of a contingency for capturing short or responsive work by Internal Audit that does not necessarily go to the depth required to gain a formal opinion.

## **3. Possible changes to the Annual Audit Plan & Resources**

**3.1** There are no additional changes to report to the Audit Committee at this time. However, the Audit Committee will continue to receive a monitoring report that will notify the committee of any significant variance in resources or changes to the plan.

## **4. Conclusion**

**4.1** Audit Cotswolds has been established, to deliver the Internal Audit Service to its three core partners. The annual plan is to be delivered by the Audit Partnership to Cheltenham Borough Council.

## **5. Reasons for recommendations**

5.1 Following CIPFA's guidance on Audit Committees the Committee this evening should "*formally approve (but not direct) the internal audit plan.*"

## 6. Alternative options considered

6.1 None Applicable

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<b>Appendices</b>	<b>A. Internal Audit Plan 2012-13</b>