

# Cheltenham Borough Council

## Internal Audit Annual Opinion Report 2021/22

## Internal Audit Annual Opinion – 2021/22: ‘At a Glance’

### Annual Opinion



A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives.

### The Headlines

|  |  |
|--|--|
|  | <b>No Significant Risks were identified during the year.</b>   |
|  | <b>24 reviews delivered as part of the 2021/22 Internal Audit Plan.</b><br>Includes assurance, advisory and follow up reviews.<br>4 reviews are at draft report stage and 2 are in progress. Furthermore we continue to support the Council with ongoing projects and attend corporate meetings. |
|  | <b>A number of agreed actions from 2020/21 remain outstanding, along with actions agreed during 2021/22 (some agreed actions have had time extensions due to on-going worldwide events).</b><br>We will continue to follow-up all agreed actions.  |
|  |  |

### Internal Audit Assurance Opinions 2021/22

|             |   |
|-------------|---|
| Substantial | 9 |
| Reasonable  | 8 |
| Limited     | 0 |
| No          | 0 |

### Internal Audit Agreed Actions 2021/22

|              |           |
|--------------|-----------|
| Priority 1   | 1         |
| Priority 2   | 15        |
| Priority 3   | 6         |
| <b>Total</b> | <b>22</b> |

## Executive Summary

Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



### 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; and
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- 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 to the preparation of the Annual Governance Statement.
- Compare the work actually 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.

## Executive Summary

### Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit, Compliance and Governance 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' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

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

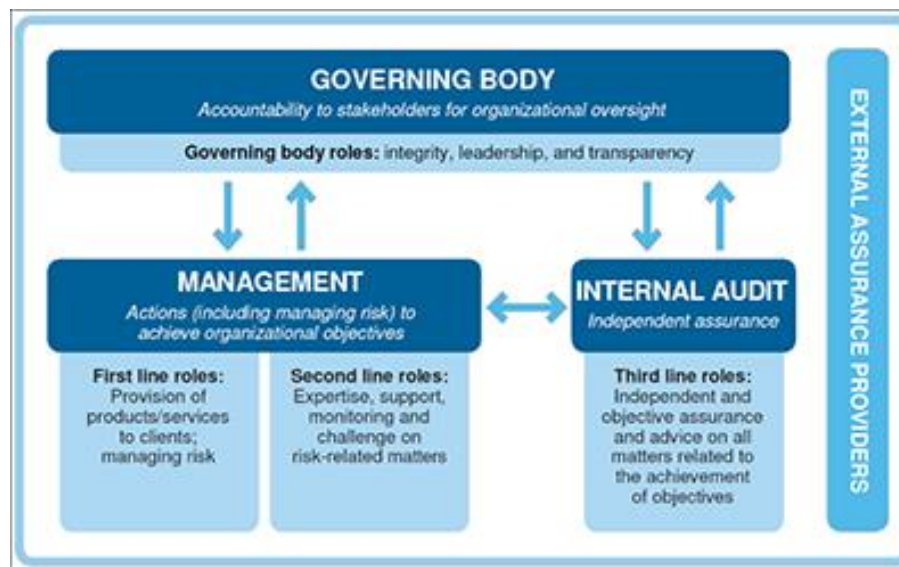


### Background

The Internal Audit service Cheltenham Borough Council is provided by SWAP Internal Audit Services. 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 Application 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 Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2021/22 year.

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



## Internal Audit Opinion 2021/22

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion

On the balance of our 2021/22 audit work for Cheltenham Borough Council, enhanced by the work of external agencies, I am able to offer a **Low Substantial Assurance** opinion in respect of the areas reviewed during the year.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to inform the annual opinion as well as supporting the key priorities that underpin CBC's Corporate Plan:

- Making Cheltenham the cyber capital of the UK
- Continuing the revitalisation and improvement of our vibrant town centre and public spaces
- Achieving a cleaner and greener sustainable environment for residents and visitors
- Increasing the supply of housing and investing to build resilient communities
- Delivering services to meet the needs of our residents and communities

Our audit work supports each of these priorities, whether as an assurance audit, an advisory piece of work, ad hoc requests or support to the council.

The professional requirements of PSIAS have remained unchanged and in line with these, audit priorities have been agreed throughout the year and this work supports the annual opinion.

The additional work performed to carry out assurance work on risks associated with the continued pandemic were:

- *Audit of Covid grants*

Alongside direct internal audit work, the HIA can also place reliance on:

- *Work and investigations undertaken by the Council's Counter Fraud and Enforcement Unit*
- *Updates and PSN certification undertaken by the Council's ICT Audit and Compliance Manager*
- *Review undertaken by Head of Performance, Projects and Risk on Managers' Assurance Statements 2021/22*

As we are working to a more agile / rolling audit plan the following audits have been agreed with Management to be carried forward to 2022/23.

- *Human Resources – Following the implementation of a new recruitment process*
- *Procurement – following the adoption of the updated Procurement and Commissioning Strategy*

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control.

- *Business Continuity*
- *Continuous assurance*
- *Key financial audits*
- *Information governance and security*
- *Key front line services*

Throughout another challenging year, we have tried to ensure a balance between providing direct assistance to the Council and maintaining a continuum of audit work. We are pleased to report we have achieved this, although it must be recognised coverage is not comparable to previous or 'normal' years.

## Summary of Audit Work 2021/22

### Definitions of Corporate Risk

#### High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

#### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

#### Low Risk

Issues of a minor nature or best practice where some improvement can be made.



### Significant Corporate Risks

Our audits examine the controls that are in place to manage the risks that relate to the area being audited. We assess the risk at a 'Corporate' level once we have tested the controls in place. Where the controls are found to be ineffective and the 'Corporate risk' as 'High' these are brought to the Audit, Compliance and Governance Committee attention.

We have not identified any significant corporate risks in the areas we have audited this year, but audit reviews completed during the year identified weaknesses in process / systems that should be addressed. Of the fifteen priority 2 agreed actions made during the year, 7 have been actioned and the remaining 8 are not due to be implemented until 2022/23. The priority 1 action is in respect of Emergency Planning and key roles, including DEPLO support being appointed to the team. We are aware that good progress is being made in recruiting to the emergency planning team but the agreed action has not been fully implemented at this time, we will continue to follow-up.

We have also continued to follow-up all agreed actions made in previous years audits. Due to on-going worldwide events that continue to affect the Council e.g. Covid and the War in Ukraine and officers supporting these more critical services, some agreed actions haven't been implemented by the target date and have been deferred. Progress is being made on implementation of these actions and we will continue to follow them up.

All audits, and progress against agreed actions, have been reported throughout 2021/22 to the Audit, Compliance and Governance Committee.



## Summary of Audit Work 2021/22

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

### Assurance Definitions

|                    |  |
|--------------------|--|
| <b>No</b>          | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| <b>Limited</b>     | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.                       |
| <b>Reasonable</b>  | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.                     |
| <b>Substantial</b> | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.  |

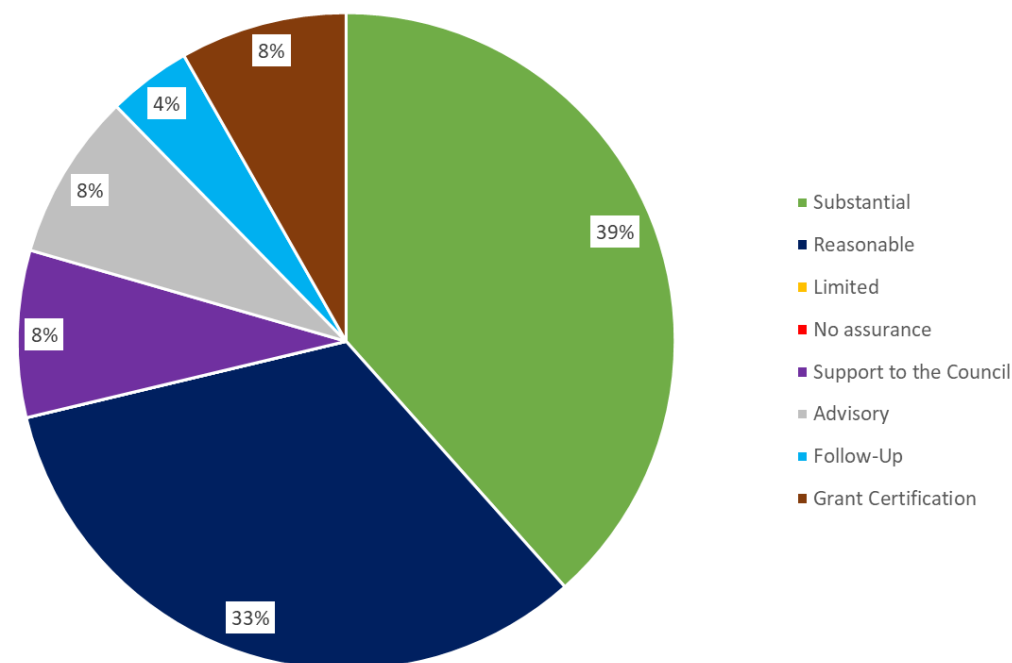


### Summary of Audit Opinion

The following two charts summarise the audit opinions and audit work, and involvement, during 2021/22

Table 1 indicates the spread of assurance opinions across our work during the past year.

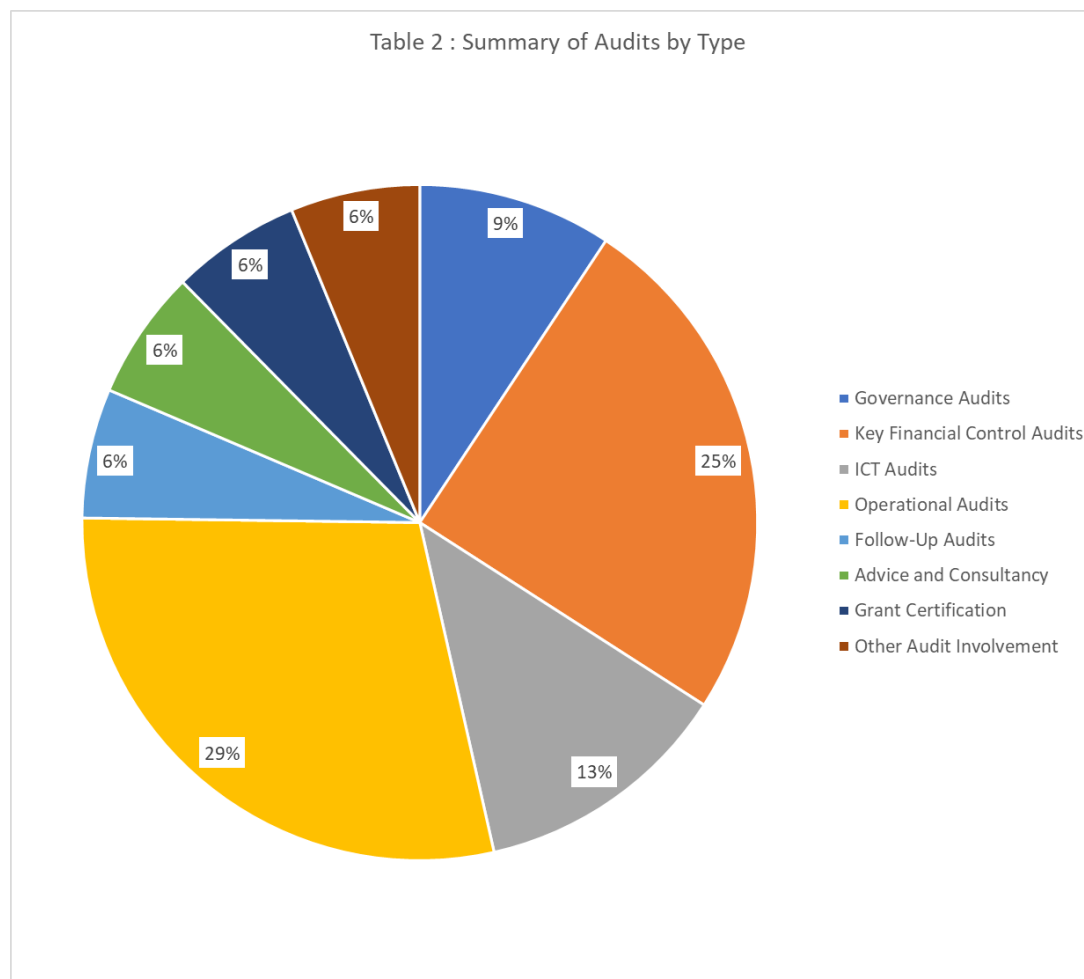
Table 1 : Summary of Audit Opinions





## Summary of Audit Work 2021/22

Table 2 indicates the audit work by type.



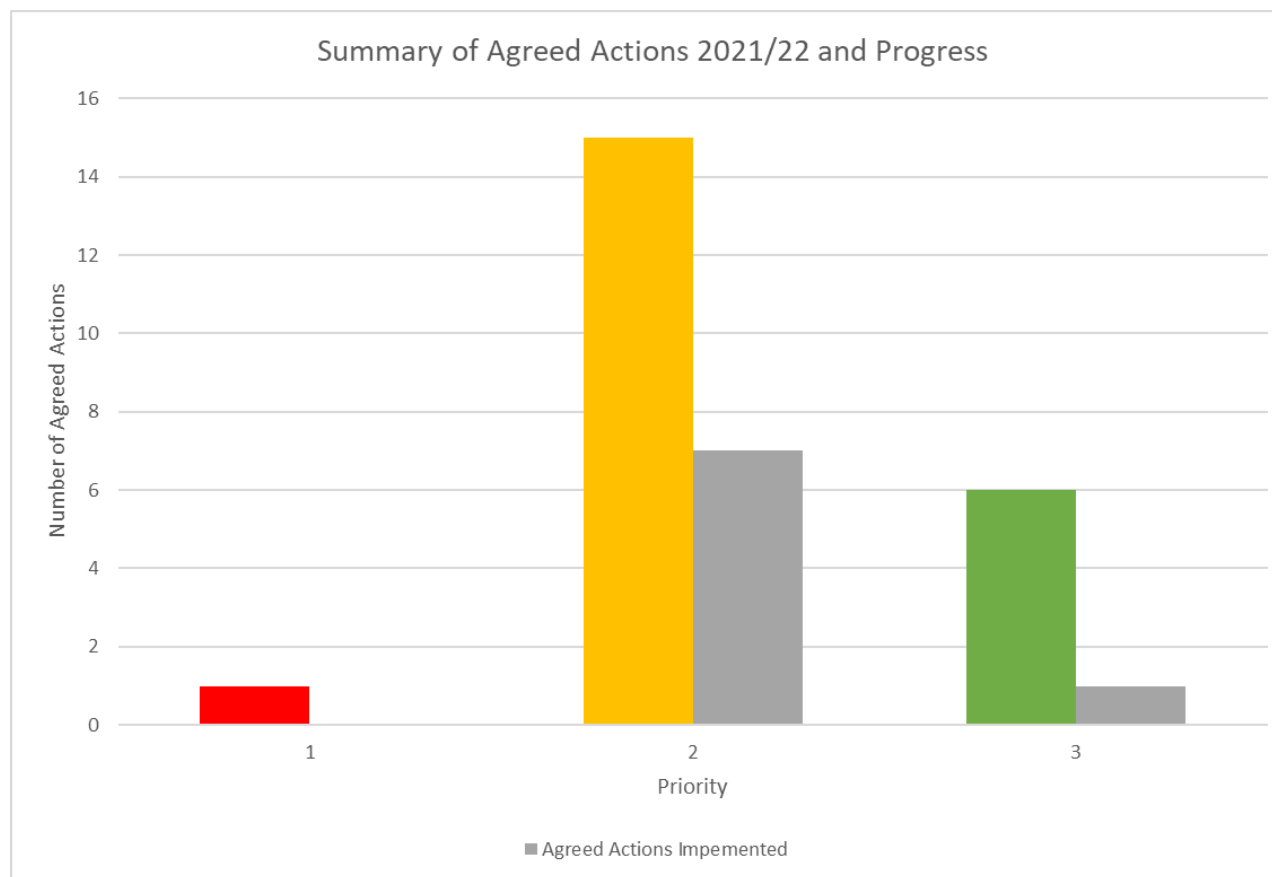
## Summary of Audit Work 2021/22

### SWAP Performance - Summary of Audit Actions by Priority

We rank our actions on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of major concern requiring immediate corrective action



### Priority Actions



### 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

Throughout the year, SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

#### Corporate Strategies

We have reviewed a number of corporate strategies and advised on required amendments, when necessary.

#### Corporate Groups

During the year we have attended a number of corporate groups to act as a 'critical friend'.

#### Benchmarking

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN). This data is useful for services to develop and improve their own systems and processes so that business objectives can be achieved with continually decreasing resources.

#### News Roundup

We produce a fortnightly newsletter that provides information on topical areas of interest for public sector bodies.

## Plan Performance 2021/22

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 both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for CBC for the 2021/22 year are as follows:

| Performance Target                                | Average Performance |
|---|---------------------|
| <b><u>Audit Plan – Percentage Progress</u></b>    |                     |
| Final, Complete, Draft and Discussion 90%         | 88%                 |
| In Progress/Review                                | 6%                  |
| Carried Forward                                   | 6%                  |
| <b><u>Customer Satisfaction Questionnaire</u></b> |                     |
| Feedback 95%                                      | 100%                |

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) 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.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance of PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want

## Plan Performance 2021/22

to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.



## Summary of Internal Audit Work 2021/22

| Audit Type                                     | Audit Area   | Status       | Opinion            | No of Actions |
|--|--|--------------|--------------------|---------------|
| <b>2021/22 Finalised and Completed Reviews</b> |  |              |                    |               |
| Key Financial Control                          | Payroll (2020/21)  | Final Report | Low Substantial    | 0             |
| ICT  | Systems Admin  | Final Report | Medium Reasonable  | 2             |
| ICT  | Data Recovery Capabilities                                       | Final Report | Low Substantial    | 1             |
| Governance                                     | Governance of Programmes and Projects                            | Final Report | High Reasonable    | 2             |
| Follow-Up                                      | Planning Enforcement   | Final Report | Medium Reasonable  | 3             |
| Operational                                    | Procurement (Contract Management and Monitoring)                 | Final Report | Medium Substantial | 1             |
| Operational                                    | Emergency Planning   | Final Report | Low Reasonable     | 4             |
| Operational                                    | Fire Risk Assessments  | Final Report | Low Reasonable     | 1             |
| Governance                                     | Governance and Monitoring of Strategic Commissioned Partnerships | Final Report | High Reasonable    | 3             |
| Key Financial Control                          | Council Tax and National Non-Domestic Rates                      | Final Report | Medium Substantial | 0             |
| Key Financial Control                          | Housing Benefits and Council Tax Support                         | Final Report | Medium Substantial | 0             |
| Key Financial Control                          | Treasury Management and Bank Reconciliation                      | Final Report | High Substantial   | 0             |
| Key Financial Control                          | Accounts Payable   | Final Report | High Substantial   | 0             |
| Key Financial Control                          | Main Accounting and Accounts Receivable                          | Final Report | Low Reasonable     | 2             |
| Key Financial Control                          | Payroll (2021/22)  | Final Report | High Substantial   | 0             |



## Summary of Internal Audit Work 2021/22

| Audit Type              | Audit Area  | Status       | Opinion                | No of Actions |
|-------------------------|---|--------------|------------------------|---------------|
| Operational             | Business Grant Funding – Post Payment Assurance     | Final Report | High Substantial       | 0             |
| ICT                     | Accounts with Administrative Privileges             | Final Report | High Reasonable        | 3             |
| Grant Certification     | Disabled Facilities Grants                          | Complete     | Grant Certification    | N/A           |
| Grant Certification     | Restart Grants                                      | Complete     | Grant Certification    | N/A           |
| Follow-Up               | Follow-Up of All Agreed Actions                     | Completed    | Follow-Up              | N/A           |
| Other Audit Involvement | Working with the Counter Fraud and Enforcement Unit | Completed    | Support to the Council | N/A           |
| Other Audit Involvement | Management of the IA Function and Client Support    | Completed    | Support to the Council | N/A           |
|                         |   |              |                        |               |

| Audit Type    | Audit Area                           | Status       | Comment |
|---------------|--------------------------------------|--------------|---------|
| Draft Reports |                                      |              |         |
| ICT           | Vulnerability Management             | Draft Report |         |
| Operational   | Procurement Cards                    | Draft Report |         |
| Operational   | Election Expenses – Treatment of VAT | Draft Report |         |
| Governance    | Risk Management                      | Draft Report |         |



## Summary of Internal Audit Work 2021/22

| Audit Type                                       | Audit Area   | Status          | Comment   |
|--|--|-----------------|---|
| <b>In Progress</b>                               |  |                 |   |
| Operational                                      | Publica Performance Information  | In Progress     |   |
| Operational                                      | Mechanism for Charging Council   | In progress     |   |
|  |  |                 |   |
| <b>Ongoing Audit Support / Other Involvement</b> |  |                 |   |
| Advisory   | Procurement and Commissioning Group  |                 | Support complete for 2021/22, will continue into 2022/23  |
| Advisory   | Strategy Review – Climate Change Investment                                      | Complete        |   |
| Advisory   | Strategy Review – Communications   | Complete        |   |
| <b>Audits Carried Forward</b>                    |  |                 |   |
| Governance                                       | Human Resources  | Carried Forward | Rolling Audit. Planned for 2022/23 following the introduction of a new recruitment process                      |
| Operational                                      | Other Support Service provided by Publica Procurement (Compliance with Strategy) | Carried Forward | Rolling Audit. Planned for 2022/23 following the adoption of the Updated Procurement and Commissioning Strategy |
|  |  |                 |   |

