Cheltenham Borough Council

Report of Internal Audit Activity

September 2022

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Internal Audit Definitions

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

- **No**
- **Limited**
- **Reasonable**
- **Substantial**

● Audit Framework Definitions

Control Assurance Definitions

No	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.
Limited	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.
Reasonable	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.
Substantial	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.

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.

Internal Audit Definitions

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.

Audit Plan Progress

Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Operational	Procurement Cards	Final Report	Low Reasonable	2	-	1	1	See Appendix C
ICT	Vulnerability Management	Final Report	High Reasonable	1	-	1	-	See Appendix C
Operational	Election Expenses – Treatment of VAT	Final Report	Medium Substantial	0	-	-	-	See Appendix C
Operational	Risk Management	Draft Report						
Operational	Publica Performance Information	In Progress						
Operational	Accounts Payable (Qtly review)	In Progress						
Operational	Taxi Licensing – Safeguarding	Draft Report						
Operational	Climate Change (Strategic)	In Progress						
Operational	Business Continuity Management	In Progress						
Operational	Mechanism for Charging Council	Planned for Q3						
Key Financial Control	Treasury Management and Bank Reconciliation	Planned for Q3						
Advisory	Procurement and Commissioning Group	On-Going						
Advisory	Publica Improvement Programme	On-Going						
Grant Certification	Protect and Vaccinate	Complete	N/A					

Audit Plan Progress

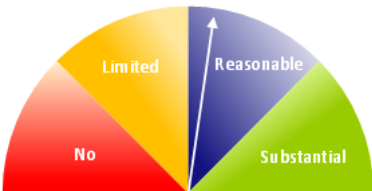| Audit Type	Audit Area	Status	Opinion	No of Rec	Priority			Comments
					1	2	3	
Grant Certification	Test and Trace Payment Scheme	Complete	N/A					
Grant Certification	Contain Outbreak Management Fund	Complete	N/A					
Follow-Up	Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement	Working with the Counter Fraud and Enforcement Unit	On Going						
Other Audit Involvement	Management of the IA Function and Client Support	On Going						
Other Audit Involvement	Contingency – Provision for New Work based on emerging risks							

The following are the Internal Audit reports, of each audit review finalised,
since the last Committee update

Procurement Cards – Final Report – June 2022

Audit Objective	To review the use of Procurement and Credit Cards to ensure purchases are made in accordance with agreed policy/procedure.

Assurance Opinion

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.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	1
Total	2

Risks Reviewed

Failure to deliver a sustainable Financial Strategy which meets priorities and failure of individual departments to meet budget

Assessment

Low

Key Findings

Several procurement/business charge card purchases were not supported by a valid sales receipt. And in some instances, only a sales order confirmation was attached to support the expenditure. This means that VAT (where applicable) cannot be reclaimed by the Council. Also, unauthorised purchases may be made which remain unidentified.

Frequent low value purchases were being made from the same supplier. It may be worth considering if this is the most efficient way to purchase these items.

The Corporate Card Policy and Guidance has not been reviewed since 2015. The Senior Accounting Technician advised the current credit card scheme is being reviewed and once the new scheme is in place the guidance will be updated accordingly. This would be an opportune time to ensure that up to date card agreements are in place for all card holders and that they are reminded of the policy requirements. Also, to review card usage and consider if a card is still required.

Audit Scope

Our review covered the following areas:
- Procurement / Business Card procedures to include card set up, administration and cancellation processes.
- Only authorised offices with a valid business use are issued procurement cards.
- Purchases are in accordance with policy and include supporting documentation for payment. For emergency payments appropriate authorisation is in place.

The test period was January 2020 – December 2021. Data analytics was undertaken on purchases made during 2019/20, 2020/21 and 2021/22.

Discussions were held with key Finance officers and service areas contacted to assess compliance with policy/procedures.

Additional Information

Card set up, administration and cancellation processes are sound. Monthly reconciliation is undertaken, and cost centres debited in a timely manner. But evidence to support the expenditure is not always in place and some processes are not as robust as expected. Data analytics did not identify any abnormal expenditure. During audit fieldwork, the transparency page, for publishing expenditure over £500 was updated to include expenditure to May 2022. 2 actions have been agreed with management which should strengthen current controls.

Vulnerability Management – Final Report – August 2022

Audit Objective — To provide assurance that the controls in place to identify and mitigate vulnerabilities within the ICT environment are sufficient and working effectively.

Assurance Opinion

There is a generally sound system of governance, risk management and control in place. Scope for improvement was identified which may help the achievement of objectives in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	1
Priority 3	0
Total	1

Risks Reviewed

A failure to effectively (i) 'Identify' (ii) 'Remediate' and/or (iii) 'Risk Manage/mitigate' vulnerabilities within the networked estate will increase exposure to successful attack and potentially significant financial, reputational and legal damage.

Assessment

Medium

Key Findings

The disclosure of vendor hardware and software vulnerabilities presenting operational and security risk to organisations is inevitable within complex IT environments. Through discussion with the service area, we determined suitable tooling is deployed coupled with sound processes that identify, assess and enable remediation of vulnerabilities within the infrastructure. We can also take assurance processes are sufficient, by the continued attainment of PSN certification, which has been achieved for 2022-2023.

Occasionally, exploitable critical vulnerabilities requiring urgent assessment and action are disclosed. Recent incidences show that swift actions are taken in response to these.

Minor control improvements have been discussed with Management who will consider their implementation.

Audit Scope

The areas reviewed as part of this audit included;

- The processes to identify, assess and risk manage vulnerabilities
- Management of the existing processes employed that enable the identification, reporting and remediation of vulnerabilities.
- Review and follow up of previous, related audit actions.

Discussions were held with the ICT Audit and Compliance Manager, Infrastructure Manager.

Conclusion

The nature of Vulnerability Management is ever-changing and as such, it is important all ICT personnel continue to monitor risks surrounding emerging vulnerabilities, including the identification and review of any specific exceptions to the processes or technical standards, which may exist or arise. Failure to do so, will potentially leave gaps in controls and increased exposure to compromise.

Given the levels of threats and skill of attackers faced today, the amount of, and criticality of vulnerabilities disclosed are likely to increase in the future. Essential and increasing defence activity is in addition to delivering improving levels of service demanded by organisations. Therefore, organisations need to continually improve both their capability, capacity and resilience to be able to respond in line. It is therefore important that any risks faced in this area are discussed with stakeholders, enabling appropriate decisions to support resourcing requirements.

Election Expenses Treatment of VAT – Final Report – August 2022

Audit Objective	To provide assurance that the treatment of VAT on Election Expenses is in accordance with VAT regulations and the Financial Rules.

Assurance 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 in the area audited.

Number of Agreed Actions

Priority	Number
Priority 1	0
Priority 2	0
Priority 3	0
Total	0

Risks Reviewed

VAT is incorrectly processed resulting in under/over submission of the VAT Return. And an impact on the accuracy of the financial statements.

Assessment

Low

Key Findings

The Vat manual, available on the staff intranet, has not been reviewed since 2017. BW, the Council's main financial system has built in VAT marker controls and Finance Business Partners provide guidance as and when required. A formal action has not been agreed on this occasion as this will be addressed in a future VAT audit.

Process notes detailing the VAT treatment for each type of election (e.g. District, County, National, etc) are available. This ensures invoices are processed promptly and accurately if the Electoral Services Manager is absent. Regular communications with the Finance Business Partner aids budget monitoring activity ensuring expenditure is well managed.

Recovery of expenditure incurred administering the County Council and the Police & Crime Commissioner elections is in accordance with the VAT regulation and the Council's Financial Rules.

Audit Scope

This review has been mainly completed as a desk top review of election expenditure in accordance with VAT legislation ref. VATGPB8680.

Meetings were held with the Electoral Services Manager and Finance Officers to determine processes undertaken.

The areas reviewed were:
- Policy /procedure documentation
- Analysis and testing of election expenses during the period January 2020 – July 2021

Scope limitations:
Salary related expenditure was not reviewed.

Summary

In February 2021, the Government issued VAT guidance for election related expenditure. The guidance was subject to interpretation and was clarified in subsequent updates. However, this led to some expenditure not being correctly coded. Finance have agreed that the underclaimed VAT for administering the May 2021 County Council election will be recovered in the next VAT return.

A VAT audit is planned for this financial year (2022/23). Therefore, we have not included staff awareness or training relating to the application of VAT which was initially included in the scope for this review.

To summarise, the Election Service operates sound controls for both processing and recovery of election expenditure.