

**Cheltenham Borough Council**  
**Audit Committee – 20 June 2012**  
**Annual Internal Audit Opinion 2011~12**

<b>Accountable member</b>	<b>Corporate Services – Cllr Colin Hay</b>
<b>Accountable officer</b>	<b>Head of Internal Audit – Robert Milford</b>
<b>Accountable scrutiny committee</b>	<b>Economy and Business Improvement Overview and Scrutiny</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>The Council must ensure that it has sound systems of internal control which facilitate the effective management of all the Council's functions. The work undertaken by Audit Cotswolds, the Council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the External Auditor (KPMG). The work is also a key component of the Council's Annual Governance Statement (AGS), which forms part of the statutory accounting statements. The attached Annual Internal Audit Opinion 2011/12 provides;</p> <ul style="list-style-type: none"> <li>• An overview of the operational arrangements which support the continued delivery of an effective internal audit service</li> <li>• A summary of the work undertaken during the year</li> <li>• My internal control opinion for the year, which is primarily based on the work of the service but also considers other assurance sources.</li> </ul> <p>The Annual Internal Audit Opinion is Appendix A</p>
<b>Recommendations</b>	<b>That the Audit Committee accepts the Annual Internal Audit Opinion 2011/12</b>

<b>Financial implications</b>	<p>None arising directly from this report</p> <p><b>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</b></p>
<b>Legal implications</b>	<p>There are no legal implications arising from this report</p> <p><b>Contact officer: Peter Lewis , peter.lewis@teWKesbury.gov.uk,</b></p> <p><b>Main office 01684 272012</b></p> <p><b>Branch office 01242 264216</b></p>

<b>HR implications (including learning and organisational development)</b>	<p>There are no HR implications arising from this report</p> <p><b>Contact officer: Julie McCarthy, <a href="mailto:julie.mccarthy@cheltenham.gov.uk">julie.mccarthy@cheltenham.gov.uk</a>, 01242 264355</b></p>
<b>Key risks</b>	<p>The delivery of an effective internal audit is a statutory requirement (Audit &amp; Accounts Regulations 2011). The work supports the development and maintenance of an appropriate control environment, which is a key factor in the effective management of risk. There are no direct risks in relation to this report</p>
<b>Corporate and community plan Implications</b>	<p>The Internal Audit activity helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.</p>
<b>Environmental and climate change implications</b>	<p>The Internal Audit service is an independent, objective assurance and consulting activity designed to add value and improve the Councils operations.</p>

## 1. Background

- 1.1 Members need to be confident that internal audit activity, along with other assessment processes like risk and performance management, helps to ensure that appropriate levels of assurance on the overall control environment operate within the council.
- 1.2 It has always been good practice to produce an Annual Report and Opinion Statement; this is now incorporated as part of the Code of Practice for Internal Audit in Local Government. The development of the AGS as part of the Annual Statement of Accounts has also increased the focus on Internal Audit as a key provider of evidence in respect of the statement and its associated action plan. This report and opinion has been considered as part of the AGS process, which follows good practice guidance.

## 2. Reasons for recommendations

- 2.1 This report summarises the main findings arising from our internal audit work completed within the year to 31 March 2011. The purpose of the report is to support the Statutory Officers and the Audit Committee in the delivery and monitoring respectively of effective corporate governance arrangements. The report is one element of a wider governance assurance framework and meets the annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4.2 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control\*;
- e) 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; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

- 2.2 The Code of practice also states at paragraph 10.4.1 that:

*"The Head of Internal Audit must provide a written report to those charged with governance timed to support the Statement on Internal Control\*"*

Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Council in meeting the requirements of Regulation 4 the Accounts and Audit Regulations 2011. These state that:

*"The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."*

*"The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control."*

### **3. The Annual Internal Audit Report 2011/12 (Appendix A)**

- 3.1** The Annual Internal Audit Report is attached; it covers the areas outlined in the code of practice for annual reporting. The report touches on aspects of the service and its delivery. It is important to note that the internal audit service has been delivered by Audit Cotswolds since November 2010.
- 3.2** The report gives an opinion statement on the control environment which forms part of the evidence considered when developing the Council's AGS. My opinion in respect of the control arrangements for the year 2011/12, based on the activities and systems examined and other assessment evidence, is '**satisfactory**' assurance (the four opinion options being; high, satisfactory, limited or low assurance).
- 3.3** The report comments on the annual review of the effectiveness of internal audit which for 2011/12 was based on a self assessment against the CIPFA Code of Practice and Audit Partnership Board appraisal which were both undertaken as part of the enhancement to the Internal Audit Service governance arrangements in September 2011.

### **4. Changes in the Internal Audit Service**

- 4.1** The past year has seen the establishment of a new three way partnership governance agreement, which came into force from 1<sup>st</sup> April 2012, between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 but now is delivered by Cotswold DC under a Section 101 agreement. The service will be looking to consolidate and develop this partnership through 2012/13. This will include further development of partnership working and ICT systems.

### **5. Performance management –monitoring and review**

- 5.1** Under the Section 101 Agreement this Audit Committee has responsibility for the monitoring of the internal audit output against the audit plan and the general performance of the service.

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<b>Appendices</b>	A – Annual Internal Audit Opinion 2011/12
<b>Background information</b>	