



'Working in partnership for a sustainable, high quality service'



INTERNAL AUDIT REPORT

Cheltenham Borough Council

Annual Internal Audit Opinion 2011/12

Introduction

In November 2010 West Oxfordshire District Council joined the Internal Audit partnership that already existed between Cotswold District Council and Cheltenham Borough Council. This partnership is now known as 'Audit Cotswolds' and provides the internal audit services for the Council. This service is required by statute. A significant part of the modern role of the service is the provision of a broad control evaluation function, by either offering or supporting control assurances gained through activities like risk management, performance management, complaints systems and external inspection.

Good practice guidance suggests that the Internal Audit Annual Report should include the key areas of;

- An opinion on the overall adequacy and effectiveness of the control environment,
- A summary of the work from which the opinion is derived,
- Comment on compliance with the Code of Practice for Internal Audit,
- A summary of service performance against its performance measures,
- Detail the internal audit quality assurance process and results.

This report makes comment on each of these and a number of other matters.

Responsibilities

It is a management responsibility to develop and maintain the internal control framework and to ensure compliance with it. The Audit Committee is responsible for obtaining assurance in respect of the control environment operating, part of which comes from the work and opinion of internal audit.

Opinion on the overall adequacy and effectiveness of the control environment

This Annual Report gives my opinion as the Head of Internal Audit and therefore the officer responsible for the delivery of the internal audit function, which includes assessing the adequacy and effectiveness of internal control within Cheltenham Borough Council. My opinion is based on the adequacy of control, noted from a selection of risk-based audits carried out during the year and, other advice work on control systems including the proactive work of the service as it supports the control arrangements within change projects. The results of any external inspections also inform the opinion.

Throughout the year we have measured the degree of control assurance within the systems or elements of systems we have audited or supported by way of control advice. Overall, it is my opinion that a **satisfactory assurance** level can be given for the controls in place, within the areas where audit activity has taken place, to safeguard these systems which in turn support the delivery of the Council's overall business objectives.

Where operational control issues were raised, these are subject to agreed action plans that mitigate risk or the auditors control advice is incorporated within the risk management arrangements for projects and system development or change.

A formal opinion statement is included in **Appendix 1**.

The Council's Annual Governance Statement (AGS)

The opinion of the Head of Internal Audit on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion, the work undertaken during the year, is detailed within Appendix A. There were matters arising from the work during the year that are deemed a significant control weakness by a 'limited assurance' opinion, these are detailed below. In these

areas, the risks associated with the control issues raised in the audit reports are being actively managed by the responsible Management.

Compliance with the Internal Audit Code of Practice

As well as offering an opinion based on the work undertaken during the year, the Annual Report should also provide the Senior Management and the Audit Committee with assurance that the internal audit service complies with professional internal auditing standards.

It is a requirement of the Accounts and Audit Regulations that Local Authorities undertake an annual review of the effectiveness of its internal audit provision.

This year due to the enhancement of the governance of the Audit Partnership being implemented through the financial year, to which this report relates, it was deemed appropriate to rely on the assessments undertaken through this process. The first was a self assessment reported to Audit Partnership Board, second was an assessment undertaken by the Audit Partnership Board, both of which were reported to this Committee in September 2011. The conclusion of the self assessment was that the Code of Practice is being met in all significant areas. The second assessment was conducted by the Audit Partnership Board on the 6th May 2011. Positive feedback from the Audit Partnership Board identified that they were satisfied with the work delivered to date and recommended the move to the enhanced governance in September 2011.

Quality Assurance Arrangements and Performance

There is a two stage review process to ensure the quality of the service. The first stage has been briefly mentioned above and is in the form of the Audit Partnership Board. The Audit Partnership Board operates under a Terms of Reference that was approved by the Audit Committee on the 30th September 2009. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness. On the 6th May 2011 the Partnership Board informed the Audit Partnership Manager that they were satisfied with the performance of the partnership to date through a formal appraisal.

The second stage relates to specific audit review work. There is a robust quality assurance process in place for all audit review work that includes the following:

- The Head of the Audit Partnership is responsible for:
 - Developing an annual risk based plan in consultation with senior management
 - Ensure that the plan remains relevant through the year by realigning to new and emerging risks if necessary
 - Escalation of significant audit issues to the appropriate level to ensure risks are appropriately mitigated in line with management's risk appetite
 - Provision of training to audit staff to ensure continual professional development requirements are delivered and any specialist areas identified in the plan can be resourced e.g. environmental auditing.
- Principal Auditors within the team are tasked with:
 - Conducting periodic meetings with the auditor during site work,
 - Review and approval of the draft report,
 - Review and assessment of the working file,
 - Agreement of the 'points forward', the issues for consideration at next audit review or for the next audit plan

Further quality assurance is provided through the use of formal appraisal schemes and other staff based codes and programmes.

Effectiveness of Internal Audit

Although the above sections of this report outline compliance with national standards there is no national measurement of effectiveness. Indications are that we provide an effective service, actual measurements and evidence is provided through locally driven feedback and comparison through membership of the CIPFA benchmarking group, and that management are proactive in audit planning and responsive to recommendations and advice. We have an Audit Charter and work to an approved annual plan, there is now

a directing audit strategy, with the main drivers coming from the business case objectives. The Audit Charter and the Annual Plan demonstrates what the Council wishes from its internal audit service, for example the relationship or balance between financial, governance, and operational assurance, consultancy type work, value for money activity and counter fraud work. Whereas the Strategy provides details on the resources needed to meet these service requirements

Developing the Internal Audit planning process

The Audit Plan for 2011/12 was developed using a risk based process. In accordance with professional best practice there has been an increasing link between audit activity and the Council's risk management process and several reviews were undertaken on areas identified in risk registers. Although the audit plan approved at the start of the year is the basis for the year's activities the service needs to be responsive to emerging risks. Examples in 2011/12 of unplanned work includes supporting the implementation and set up of Ubico Ltd (the Local Authority Company).

Resourcing

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2011/12 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (IIA)
- Chartered Management Institute (CMI)
- Chartered Institute of Management Accountants (CIMA)
- Institute of Management Services (IMS)
- Institute of Accounting Technicians (AAT)

Furthermore there is now a considerable amount of internal audit experience available, many of these gained at senior management level and drawn from both the public and private sectors.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts. We have provided audit assurance to Tewkesbury BC over the Building Control Shared Service and they have reciprocated with assurance over the One Legal Shared Service. Furthermore for the GO Shared Service a working relationship with the Internal Audit team at the Forest of Dean DC was developed.

There is an agreement with the Chief Finance Officer that funding will be made available to engage 'specialist' audit or 'professional' skills should an audit activity demand this, which supports the Code of Practice which requires access to such skills if needed.

Training undertaken during the year

Audit work demands a sound understanding of all sectors of the organisation, of professional standards, of developing and emerging trends, and of issues both with the profession (including professional requirements for continuing professional development (CPD)) and local government for the services provided to the Council. During the year the following training was undertaken:

- Continuing professional development – CIPFA audit training seminars
- IIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference
- Two members of the team are on the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification.
- One member of the team has commenced a PhD on Shared Service Governance in Local Authorities

Looking forward

The past year has seen the establishment of a new three way partnership governance agreement between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 and now operates (as at 1st April 2012) under a Section 101 Agreement with Cotswold DC as the host. All Cheltenham BC audit staff have TUPE transferred to Cotswold DC. The

service will be looking to consolidate and develop this three way partnership through 2012/13. This will include further development of working practices and audit related ICT systems. This will ensure a sustainable, high quality service will continue to be delivered for the Council.

Conclusion

During the year, Audit Cotswolds delivered a programme of work and responded to emerging issues. The service continues to make a valuable contribution to an improving control environment and culture within the Council.

The work, support and advice provided by Audit Cotswolds will be key in relation to the controls and their effectiveness in the management of risk as the Council seeks to; meet efficiency targets, reduce its budget, review its methods and approach to service delivery levels, embraces new challenges, increase partnership working and engages the shared services agenda.

Robert Milford DMS MA PGDip CMIIA MCMI AMS

Head of Audit Cotswolds (Head of Internal Audit)



Cheltenham Borough Council

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Audit Partnership Manager & Head of Internal Audit**Opinion on the effectiveness of the system of Internal Control for the year ended 31 March 2011****Roles and responsibilities**

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS), is an annual statement from the Chief Executive and the Leader of the Council, on behalf of the Council, setting out the governance control environment, the review of its effectiveness, the control issues and the actions planned to further improve the control environment.

The Council's control assurance framework should bring together all of the evidence required to support the Annual Assurance Statement requirements.

In accordance with CIPFA Code of Practice for Internal Audit in Local Government, the Head of Internal Audit is required to provide an annual opinion, based upon, and limited to, the work performed, on the overall adequacy and effectiveness of the organisation's control arrangements. This is achieved through a risk-based programme of activities, agreed with management and approved by the Audit Committee, which should provide a level of assurance across a range of Council activities. The opinion does not imply that the internal audit service has reviewed all risks and controls relating to the Council or the systems it reviews.

The Head of Internal Audit Opinion

The purpose of my annual Head of Internal Audit Opinion is to contribute to the assurances available to the Chief Executive and the Council which underpin the Council's own assessment of the effectiveness of the authority's system of internal control. This opinion is one component that the Council must take into account when completing its Annual Assurance Statement.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

My **overall opinion** is that

Satisfactory assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. Some weakness in the design and/or inconsistent application of controls have been identified, recommendations made and improvement plans agreed.

The **basis** for forming my opinion is as follows:

1. An awareness of the design and operation of the processes which underpin the overall control framework, and
2. An assessment of the range of individual opinions arising from risk-based internal audit assignments, contained within internal audit's risk-based plan that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Additional areas of work that support my opinion;

3. The outcome of other external inspections of internal control systems throughout the year, for example reports provided by KPMG and Tewkesbury BC Internal Audit

The **commentary** below provides the context for my opinion.

The range of individual opinions arising from risk-based audit assignments, contained within the annual plan that have been reported throughout the year.

A table of internal audit work in 2011/12 is detailed in **Appendix (i)**

The control environment within key financial systems is satisfactory and this assessment is consistent with the findings of the External Auditors for a number of years. There is still scope to improve the arrangements for some of the key governance activities examined and these are being actively progressed both through the transition to new management arrangements, which is supported by agreed action plans, following internal audit reviews.

There were four areas where a 'Limited Assurance' opinion was deemed appropriate.

The Payroll system was reviewed during January 2012 and resulted in a third 'Limited Assurance' opinion. The audit report highlighted weaknesses in input controls, management review routines and reconciliation procedures. The management response to audit recommendations looks to the new GO Shared Service to resolve key elements of weakness in the systems and address the payroll resilience issue. Progress will be tracked by the Corporate Governance Group through the Significant Issues Action Plan and the system remains on the Corporate Risk Register. This is a routine audit area and as such will be reviewed again in 2012/13.

A 'Governance Compliance' audit was undertaken with the focus on Member and Officer Registration of interests, gifts and hospitality. The audit opinion was a limited assurance as expected controls for officers' interests and hospitality were not in place and current processes were not robust enough to ensure the Members Register of Interests is effectively maintained or that declarations of hospitality are adequately recorded.

A review of the Green Waste Accounting highlighted a number of points concerning current control arrangements relating to both income management and the stock of green waste bins at the Depot. These were unsatisfactory and fall well short of complying with the Financial Rules of the Council. Some issues also emerged in relation to the total accuracy of the existing database (e.g 'chargeable' addresses not having been recorded in the database where these differ from 'bin' addresses; some duplication of entries in the database) which will cause difficulties in the renewal process if not corrected before renewals commence. Current availability of management reports from the database was also limited.

A review of the Building Control Shared Service (between Tewkesbury BC and Cheltenham BC) identified that there were issues in the practical application of the governance framework and that various meetings required to effectively manage the service as per the governance agreement. The key issue was ensuring that the joint manager of the service had regular meetings with the 'Client Officers' simultaneously to ensure both parties had a clear understanding of the expectations of the other party. This was combined with an unclear series of benefit realisation criteria and performance aims from the business case.

Other significant audit activity - The Health Check review of Business Continuity Plans (BCP) in 2010/11 identified that BCP still required full testing and as such Internal Audit is now actively monitoring this area. This is being assessed through two elements firstly through Internal Audit assessments of: 1) desk-top testing being undertaken (this did occur in 2010/11) and 2) the full testing element planned for later in 2011 prior to the GO ERP system going 'live'. BCP has been monitored throughout 2011/12 and various issues have been reported to management.

The GO Shared Service and Local Authority Company (Ubico Ltd) programmes/projects placed a high demand on the audit service. The simultaneous implementations of GO and Ubico Ltd for the 1st April 2012

resulted in significant changes to the approach for core financial audits (GO related) as the systems in 2011/12 became obsolete for 2012/13, and the requirement to aid the build of a completely new company.

In 2011/12 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within these reports details of all full audit reports were provided for Audit Committee comment along with information relating to the service.

For the some areas identified in the table below no formal assessment in relation to control activity is made, but the general observation and advice given as part of this work feeds into my assessment of the overall control environment. Our observations and the acceptance of advice has, I feel, further enhanced the control environment.

The assessments reported from other inspection processes

In formulating our overall opinion on internal control, Internal Audit were aware of the work undertaken by other sources of assurance, their findings and their conclusions:

- External Audit (KPMG) - various reviews including the Annual Audit Letter
- External Audit (KPMG) – the Public Interest Report
- Internal Audit at Tewkesbury Borough Council – One Legal Shared Service Audit (Satisfactory Assurance Opinion Given)

Other assessments considered

The Certificates of Assurance (control self assessments by management)

The other control assurance statements and supporting evidence which are considered in the completion of the Annual Governance Statement.

Robert Milford DMS MA PGDip CMIIA MCMI AMS

Head of Audit Cotswolds (Head of Internal Audit)



Cheltenham Borough Council

Table of internal audit work in 2011/12
Appendix (i)

AUDIT ACTIVITY / REVIEW AREAS & ASSURANCE LEVELS				
The table below provides a summary of the internal audit service activities and assurances gained.				
	Audit Activity	Assurance Opinion (if relevant)	Status	Type
1	DCLG Consultation		Final	Consultancy
2	Effectiveness Review of Audit Committee		Final	Consultancy
3	Audit Partnership Governance ~ enhancement report		Final	N/A
4	Green Waste Accounting	Limited	Final	Assurance
5	Local Authority Company Programme		Ongoing	Consultancy
6	ICT VFM Support		Final	Assurance
7	Planning Applications	Satisfactory	Final	Assurance
8	Health & Safety ~ Health Check		Final	Assurance
9	Car Parks - follow-up	Satisfactory	Final	Assurance
10	National Fraud Initiative & Survey		Final	Assurance
11	Resource Management / Capacity		Ongoing	Assurance
12	Cheltenham Development Task Force		Ongoing	Consultancy
13	Licensing	Satisfactory	Final	Assurance
14	Follow-up of recommendations – throughout the year		Ongoing	Assurance
15	Network Application Control Incident		Final	Assurance
16	Mobile Phone Usage Incident		Final	Assurance
17	Commissioning		Ongoing	Consultancy
18	Art Gallery & Museum Project		Ongoing	Assurance
19	Building Control shared service	Limited	Final	Assurance
20	GO programme assurance (Gateway Reviews)		Final	Assurance
21	GO project assurance (CBC implementation)		Final	Assurance
22	Governance Compliance ~ Register of interests / Gifts & Hospitality	Limited	Final	Assurance
23	Petty cash reviews	Satisfactory	Final	Assurance
24	Payroll	Limited	Final	Assurance
25	General Ledger	High	Final	Assurance
26	Budgetary Control	High	Final	Assurance
27	Capital Programme	Satisfactory	Final	Assurance
28	Treasury Management	High	Final	Assurance
29	Creditors	Satisfactory	Draft	Assurance
30	Benefits	Satisfactory	Final	Assurance
31	Council Tax	High	Final	Assurance
32	NNDR	High	Final	Assurance
33	Sundry Debtors	High	Final	Assurance
34	Cash Receipting	Satisfactory	Final	Assurance
35	Bank Reconciliation	High	Final	Assurance
36	AGS review		Final	Assurance
37	Performance Management	Satisfactory	Final	Assurance
38	Risk Management	Satisfactory	Final	Assurance
39	Change Programme & Projects		Ongoing	Consultancy
40	Business Continuity Management		Ongoing	Assurance
41	Investigations	N/A	Final	Assurance
42	Corporate Governance Group	N/A	Ongoing	Consultancy

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End.