**Audit**Cotswolds

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

# CHELTENHAM
## BOROUGH COUNCIL

# ANNUAL INTERNAL AUDIT OPINION

# Cheltenham Borough Council

# Annual Internal Audit Opinion 2012-13

**Introduction**

In April 2012 Cheltenham Borough Council and West Oxfordshire District Council delegated their Internal Audit services to Cotswold District Council. This partnership is 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 changes in the internal audit standards, this is the last year we will be assessed against the CIPFA 2006 code of practice for internal audit in local government. This assessment was reported to the Audit Partnership Board and to the Audit Committee in June 2013 timed to support this opinion report. For 2013-14 the new CIPFA Public Sector Internal Audit Standards will apply.

**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 adopted on the 1st April 2012 as part of the Section 101 Agreement. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness.

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

- The Head of the Audit Partnership is responsible for:
  o Developing an annual risk based plan in consultation with senior management
  o Ensure that the plan remains relevant through the year by realigning to new and emerging risks if necessary
  o Escalation of significant audit issues to the appropriate level to ensure risks are appropriately mitigated in line with management's risk appetite
  o 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:
  o Conducting periodic meetings with the auditor during site work,
  o Review and approval of the draft report,
  o Review and assessment of the working file,
  o 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 2012-13 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 2012-13 of unplanned work includes the investigation into the virus attack on the Council's infrastructure.

**Resourcing**

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2012-13 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 the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

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 completed their '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 multiple shared service models which require different internal audit skills. Therefore the training programme has focused on expanding the skills necessary to engage in the different roles required for the different shared services. 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** MA PGDip CMgr FCMI CMIIA AMS

**Head of Audit Cotswolds** (Head of Internal Audit)

**Audit**Cotswolds

**Cheltenham Borough Council**

# Cheltenham Borough Council

## Audit Partnership Manager & Head of Internal Audit

## Opinion on the effectiveness of the system of Internal Control for the year ended 31 March 2013

**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 latterly Grant Thornton

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

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

A table of internal audit work in 2012-13 is detailed in **Appendix (i)**

This has been an extraordinary year for change in this authority. The control environment within key financial systems has undergone significant changes and that of other front line services such as refuse collection. 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 management arrangements, which is supported by agreed action plans, following internal audit reviews.

There were several areas where a 'Limited Assurance' opinion was deemed appropriate or that showed a significant change in governance that warrants further detail in this report:

- On the 1st April 2012 the new environmental services company Ubico Ltd was launched. This is a company jointly owned by this authority and Cotswold District Council. Ubico Ltd operates under its own governance framework which includes its own accounts (provided by GO Shared Services) and external auditor (Grant Thornton). Audit Cotswolds provides the internal audit services under a Service Level Agreement. This is the first company of this type for this authority and as such the first year involved settling the new governance arrangements.

- On the 1st April 2012 GO Shared Services (GOSS) went 'live' for this authority and for Ubico Ltd and Cheltenham Borough Homes Ltd. GOSS has been rolled out to the partners and clients over nearly a year commencing with Forest of Dean District Council in December 2011 and completing with Cotswold District Council in August 2012. However, the go 'live' event was only the initial system switchover to the Agresso Business World software and Cheltenham BC hosted ICT network. The software has continued to be developed through 2012~13 addressing the issues log originally created in the GO Programme. Furthermore, the staffing structures have been changed through the year with a final structure in place by January 2013. The Client Officer Group (COG) that comprises of the Section 151 Officers (or equivalent) has met regularly through the year and has supported the implementation of GOSS. However, this has been a very significant change in systems, people and governance, and has resulted in some of the core finance systems receiving a 'limited assurance' opinion from internal auditors (Payroll, Creditors, Debtors and Systems Administration). Although it is recognised that in internal auditing terms this has been a very difficult service to review due to the fluidity of the control frameworks e.g. software and people's role have change through the year, internal audit has taken a supportive approach. Further changes are also due to occur in 2013~14 including the change of ICT host from Cheltenham BC to Forest of Dean DC.

- On the 1st November 2012 this authority was subject to a virus attack of its ICT network. This prompted an investigation by internal audit. The results of this investigation concluded that there were several failures in controls that may have enabled the virus to enter the network and slowed the speed by which it could be eliminated. Internal audit reported to the Audit Committee the results of this investigation which included a 'limited assurance' opinion. However, in 2012~13 there was also the decision to enter into a shared service with Forest of Dean DC for ICT services. This decision, plus the Cabinet decision to invest in the ICT strategy, has gone a long way to help redress the governance and control issues identified by the virus report. There is still a long way to go to address all the risks from the report but the actions to date have dealt with the immediate risks. The shared service is 'live' on the 1st April 2013.

In 2012/13 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
- External Audit (Grant Thornton) – various reviews
- Internal Audit at Forest of Dean with regards to the GO Shared Services

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** MA PGDip CMgr FCMI CMIIA AMS

**Head of Audit Cotswolds** (Head of Internal Audit)

**AuditCotswolds**

**Cheltenham Borough Council**

**Table of internal audit work in 2012/13**                                        **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 | Single Post Service Vulnerabilities | | Final | Consultancy |
| 2 | Workforce Capacity Management | | Final | Consultancy |
| 3 | Green Waste Accounting ~ Follow-up | Satisfactory | Final | Assurance |
| 4 | Local Authority Company Programme | | Final | Consultancy |
| 5 | Car Parks - follow-up | Satisfactory | Final | Assurance |
| 6 | National Fraud Initiative & Survey | | Final | Assurance |
| 7 | Cheltenham Development Task Force | | Ongoing | Consultancy |
| 8 | Follow-up of recommendations – throughout the year | | Ongoing | Assurance |
| 9 | GO programme assurance (Gateway Reviews) | | Final | Assurance |
| 10 | GO project assurance (CBC implementation) | | Final | Assurance |
| 11 | NNDR | Satisfactory | Draft | Assurance |
| 12 | Bank Reconciliation | Satisfactory | Draft | Assurance |
| 13 | AGS review | | Final | Assurance |
| 14 | Performance Management | Satisfactory | Final | Assurance |
| 15 | Risk Management | Satisfactory | Final | Assurance |
| 16 | Change Programme & Projects | | Ongoing | Consultancy |
| 17 | Business Continuity Management | | Ongoing | Assurance |
| 18 | Investigations (ICT virus) | Limited | Final | Assurance |
| 19 | Corporate Governance Group | | Ongoing | Consultancy |
| 20 | Grosvenor Terrace Refurbishment Project | | | |
| 21 | Commissioning - General | | Ongoing | Consultancy |
| 22 | Commissioning - Leisure & Culture | | Ongoing | Consultancy |
| 23 | Commissioning - ICT Project | | Ongoing | Consultancy |
| 24 | Commissioning - ICT Project (due diligence) Phase 1 | | Final | Consultancy |
| 25 | Commissioning - ICT Project (due diligence) Phase 2 | | Final | Consultancy |
| 26 | Council Tax | Satisfactory | Final | Assurance |
| 27 | Service Governance - GOSS | Satisfactory | Final | Assurance |
| 28 | Housing & Council Tax Benefit | Satisfactory | Final | Assurance |
| 29 | Art Gallery & Museum Project | | Ongoing | Consultancy |
| 30 | GOSS Payroll | Limited | Final | Assurance |
| 31 | GOSS Systems Administration | Limited | Final | Assurance |
| 32 | GOSS Debtors | Limited | Draft | Assurance |
| 33 | GOSS Creditors | Limited | Draft | Assurance |
| 34 | GOSS Main Accounting & Treasury Management | Satisfactory | Draft | Assurance |
| 35 | GOSS Budgetary Control and Capital Accounting | Satisfactory | Draft | Assurance |
| 36 | Cash Receipting | Satisfactory | Draft | Assurance |
| 37 | Leisure @ | Satisfactory | Final | Assurance |
| 38 | Commissioning - Leisure & Culture (Business Case) | | Final | Consultancy |
| 39 | New Legislation | | Final | Consultancy |

End.