



CHELTENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 22 June 2011

6.00 pm

Pittville Room, Municipal Offices, Promenade

Membership	
Councillors:	Bernard Fisher, Rowena Hay, Robin MacDonald, Paul Massey (Vice-Chair), Andrew Wall (Chairman) and Paul Wheeldon

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.	APOLOGIES	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES 23 March 2011	(Pages 1 - 6)
4.	PUBLIC QUESTIONS These must be received no later than 10am on Wednesday 15 June	
5.	ANNUAL GOVERNANCE STATEMENT Report of the Director of Resources	(Pages 7 - 22)
6.	THE BRIBERY ACT 2010 Report of the Policy Officer	(Pages 23 - 26)
7.	ANNUAL INTERNAL AUDIT REPORT Report of the Audit Partnership Manager	(Pages 27 - 40)
8.	INTERIM AUDIT REPORT 2011/12 Report of KPMG	(Pages 41 - 64)
9.	AUDIT FEE LETTER 2011-2012 Report of KPMG	(Pages 65 - 70)

10.	DCLG CONSULTATION Report of the Audit Partnership Manager	(Pages 71 - 148)
11.	COMMISSIONING - UPDATE ON CURRENT COMMISSIONING EXERCISES Discussion paper of the Director of Commissioning	(Pages 149 - 154)
12.	WORK PROGRAMME	(Pages 155 - 156)
13.	ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
14.	DATE OF NEXT MEETING 21 September 2011	
	Briefing Notes (for information only) <ol style="list-style-type: none"> 1. Corporate Risk Register 2. Corporate Governance Group 3. GO Shared Services 	

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Audit Committee

**Wednesday, 23rd March, 2011
6.03 - 7.20 pm**

Attendees	
Councillors:	Bernard Fisher, Rowena Hay, Robin MacDonald, Paul Massey (Vice-Chair, in the Chair) and Paul Wheeldon
Also in attendance:	Sara Freckleton (Borough Solicitor and Monitoring Officer), Jane Griffiths (Assistant Chief Executive), Councillor Colin Hay (Cabinet Member Corporate Services), Rob Milford (Audit Partnership Manager), Ian Pennington (KPMG) and Mark Sheldon (Chief Finance Officer)

Minutes

1. APOLOGIES

Councillor Wall had given apologies.

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The minutes of the last meeting had been circulated with the agenda.

The Chairman suggested that the last bullet point on page 2 of the minutes was rather vague and that it should specifically refer to the risk threshold for asset and property transactions which the committee thought may be too low.

Upon a vote it was unanimously

RESOLVED that the amended minutes of the meeting held on the 12 January 2011 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

None received.

5. PUBLIC INTEREST REPORT ACTION PLAN

The Borough Solicitor introduced the report as circulated with the agenda, which she was presenting on behalf of the Chief Executive.

All recommendations of KPMG and the Working Group had been fully completed or implemented with the exception of three actions set out in Appendix 1, which were in part but not yet fully completed.

The KPMG recommendation 8 (centralised log of decisions) had been delayed by the implementation of the new committee management system in the first

instance and research was ongoing into how or indeed whether, the system could be used to track decisions.

The implementation of risk management training, KPMG recommendation 16 had been delayed due to the Council's budget situation but was due for completion by the end of September.

In relation to the recommendations of the Working Group, members were informed that a revised Employee Code of Conduct had recently been approved by the Standards Committee. With regards to deputies, this would be addressed in the constitution as part of the full review scheduled for later in the year.

The Assistant Chief Executive elaborated on the decision tracking issue. The Committee Management system allowed for monitoring of decisions taken, these were logged and summarised on the website. The issue however, was that many decisions comprised numerous recommendations and as such it was not yet apparent how to track progress of individual items. Officers, having looked at how other authorities used the same system (Modern.Gov) had identified that none were actually tracking decisions to completion and rather than implement a time consuming alternative, research was ongoing. In time the intranet function of the system would be launched, allowing Officers outside of Democratic Services to logon to the system and mark a decision as complete.

She also confirmed that the e-learning package had been uploaded at the latter end of last week and was currently being tested, upon completion of which it would be available to Officers. The two stage implementation (Officers first and then Members) was in an effort to ensure its effectiveness but given the small number of members requiring the training, they could be included in the initial stage.

Upon a vote it was unanimously

RESOLVED that having reviewed progress against the actions, a further review be scheduled for the meeting on the 21 September 2011.

6. REVISED RISK MANAGEMENT PROCESS AND POLICY

The Assistant Chief Executive introduced the report as circulated with the agenda. The slightly amended policy reflected changes to structure as well as KPMG recommendations and it was intended to reflect practice, clearly demonstrating how risk and escalation was managed by the Council.

Subject to any comment by the committee, which would be included in the covering report, the policy would go to Cabinet on the 19 April for approval.

There was discussion about whether the policy needed to acknowledge the envisaged changes that may arise from commissioning, however, Officers including the KPMG Auditor, felt that this should not alter the way in which risk was managed by the Council and nor would the risk necessarily transfer to a third party. (E.g. CBH risks were owned by the relevant Assistant Director but the responsibility of managing that risk lay with CBH). The suggestion was that, like the Corporate Strategy, which clearly separated where delivery of an outcome was not the responsibility of CBC, the Risk Register should do the

same. Officers agreed that they would review the policy to ensure that it reflected fully the council's commitment to commissioning.

A fundamental issue in the view of the Chairman was the definition of risk outlined in the policy. He felt that it should be aligned with the international standards (ISO3100 and IEC 73) so as to use the same terminology as other organisations.

Officers were asked to track changes to policies in the future and where the documents were substantial to make them available to members as soon as possible.

Upon a vote it was unanimously

RESOLVED that having considered the revised policy and process the feedback of the Audit Committee be included in the covering report to Cabinet on the 19 April 2011.

7. COMMISSIONING AND GOVERNANCE ISSUES

The Assistant Chief Executive introduced the paper as circulated with the agenda, which had been produced at the request of the committee at their last meeting. The paper set out some initial thoughts about the role of the audit committee and wider governance issues in view of the council's move to become a commissioning council.

In response to concerns raised by members, the Assistant Chief Executive explained that were the decision taken to for example, establish a trust to deliver a particular service, the trust would be entitled to decide against using the council's governance model. This has been raised as a possible issue and discussions were ongoing about whether this could be incorporated into the service level agreement.

The KPMG Auditor highlighted paragraph 4.4 of the paper which referred to the suggestion that independent members appointed to the audit committee could offer a degree of challenge in the commissioning process. Current information from the Department of Communities and Local Government (DCLG) proposed a move to mandatory audit committees with a majority of independent members and an independent Chairman, these would not necessarily have to be auditors and/or accountants and would have a broad range of skills. This would offer a plc feel to the council in a step towards a time when they needed to appoint independent auditors of their choice. The DCLG were of the belief that politics interfered with good governance, though this was not a view shared by the KPMG Auditor. The proposals had not yet been released for consultation and his advice was that when it was, the committee should review it and submit a formal response.

The Assistant Chief Executive indicated that depending on the timescales for responding to the consultation paper it may be appropriate to establish a working group in order to review and respond to the consultation as necessary.

The Cabinet Member Corporate Services confirmed that he had attended each of the overview and scrutiny committees to gauge views on future member involvement. The approach was very fluid at the moment as each area would

be slightly different and this called for a set of principles rather than a rigid process, though admittedly this did pose an issue from an audit perspective. He urged members to give feedback.

A table was being drafted that set out the various delivery models and the risks associated with them, this would be very useful for members and would be completed and circulated soon.

The Chairman felt that there were clearly two strands to the audit committee's involvement, the initial commissioning of services, establishing governance arrangements and once complete, monitoring the service.

The committee requested an update at their next meeting on the two reviews currently being undertaken prior to the reports on the strategic direction for these areas being presented to cabinet. This would enable the audit committee to understand the governance arrangement options which are being considered and satisfy themselves that the risks and opportunities are being fully addressed within the process.

8. VALUE FOR MONEY AUDIT PLAN

Ian Pennington, the KPMG Auditor introduced the report as circulated with the agenda. At the last meeting he had outlined the 2011-12 Audit Plan and had alluded to the new approach to local value for money work. The formerly rigid approach set by the government had been simplified in response to the changing financial environment and there would be no scored judgements, the conclusion would be pass or fail.

The new approach was structured under two themes;

1. The organisation has proper arrangements in place for securing financial resilience.
2. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The report offered an overview of the VFM audit approach and the Auditor had nothing further to add.

Members welcomed the simplification and noted the VFM audit plan.

9. INTERNAL AUDIT PLAN

The Audit Partnership Manager introduced the report as circulated with the agenda. The Audit Partnership followed a risk based approach and recognised the need to coordinate resources across the partnership and the report set out how this was being undertaken.

Appendix A, the Annual Audit Plan 2011-12 outlined the audit schedule and would supplement future monitoring reports. The first column detailed support for the external audit work and core undertakings for assurance purposes and the other columns were risk based, more flexible and could change as the year progressed.

The Go Programme posed significant risk hence the two separate entries and coincided with other core functions on which it impacted, payroll, debtors, etc and this dovetailed with the Go Programme plan.

The plan represented his assessment of risk at the present time and there was an element of contingency for issues that may arise.

The following responses were given by the Audit Partnership Manager in response to questions from members of the committee;

- In relation to risk based audits a meeting would be organised with the responsible manager to discuss what risks there were and how they were being managed. The partnership would then provide assurances based on the management of those risks.
- The plan, though large, fit the operational resources with some contingency and he was confident that it was deliverable.
- 37 days of 500 were contingency and more was available across the partnership if required.

Members of the committee suggested that the presentation of the Annual Audit Plan could be amended to include details of the risks origin, progress and target outcome(s).

The Cabinet Member Corporate Services suggested that it would also be useful to highlight an item on the Corporate Risk Register as being scheduled on the Internal Audit Plan. Officers agreed to incorporate this into the risk policy and process.

The Chairman agreed with the suggestion that a copy of the Corporate Risk Register be available at future meetings of the committee but advised that it was not a standing item on the agenda.

Upon a vote it was unanimously

RESOLVED that the Internal Audit Plan for 2011-12 be approved.

10. WORK PROGRAMME

The Chairman referred members to the work plan as circulated with the agenda.

Officers advised that the Review of the Annual Statement of Accounts which had been scheduled for June could now be deferred to the September meeting. This was as a result of changes which negated the requirement for the committee to review the draft Statement of Accounts prior to them having been audited.

In relation to the commissioning process members of the Audit Committee needed to be satisfied with the governance arrangements and comfortable that risks were being properly assessed and managed. The Assistant Chief Executive queried what value the committee would be able to add in the initial stages but agreed that ongoing updates would be provided in order that members could build confidence and knowledge of the process.

Following changes to the management structure effective from the 1 April this would be the last meeting for the Assistant Chief Executive in her role as the Lead Officer for the Audit Committee. The Chairman thanked her for her support and welcomed the Senior Finance Officer as her successor.

11. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

There were no urgent items for discussion.

12. DATE OF NEXT MEETING

The next meeting was scheduled for the 22 June 2011.

Councillor Massey
Chairman

Cheltenham Borough Council Audit Committee – 22 June 2011 Annual Governance Statement

Accountable member	Councillor Colin Hay, Cabinet member corporate services
Accountable officer	Mark Sheldon, Director of Resources
Accountable scrutiny committee	Economy and Business Improvement
Ward(s) affected	None
Key Decision	No
Executive summary	<p>The council has a statutory duty to prepare an Annual Governance Statement (AGS) (appendix 1) to be approved as part of the annual statement of accounts.</p> <p>The annual governance statement indicates how the council is complying with the code of corporate governance including the internal control arrangements and management of risk.</p> <p>The audit committee need to satisfy themselves that the AGS fairly reflects the arrangements within the council and that the suggested action plan will address the significant governance issues identified by the review.</p>
Recommendations	<ol style="list-style-type: none"> 1. The audit committee approve the annual governance statement and recommend it is adopted as part of the statement of accounts, and 2. recommend to the leader and Chief Executive officer that they sign the annual governance statement, and 3. request an update report in December on progress against the actions.
Financial implications	<p>none arising from this report</p> <p>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>There are no direct legal implications arising from this report</p> <p>Contact officer: Shirin Wotherspoon,</p> <p>Email shirin.wotherspoon@tewkesbury.gov.uk</p> <p>Tel. no; 01684 272017</p>

HR implications (including learning and organisational development)	The governance arrangements help to ensure that any human resources issues/risks are identified and addressed, there are no specific additional human resources issues arising from this report. Contact officer: Amanda Attfield, amanda.attfield@cheltenham.gov.uk, 01242 264186
Key risks	None arising out of this report
Corporate and community plan Implications	Good governance helps to deliver the councils aspirations to be an excellent, efficient and sustainable council. It also ensures that risks are identified and managed to protect its assets and workforce.
Environmental and climate change implications	None

1. Background

- 1.1** The Accounts and Audit (England) Regulations 2011 regulation 4(2) requires council's to conduct an annual review of the effectiveness of its system of internal control including the arrangements for the management of risk.
- 1.2** Each March, assurance statements and evidence tables are issued to the Directors for completion. The evidence tables act as internal control checklists which confirm/review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance. Directors have the responsibility for the completion of the Certificates, which are signed off by them.
- 1.3** Once complete, the evidence tables and the Certificates are reviewed by the Director of Resources, Head of Internal Audit and Policy Officer (Governance) to identify any governance or control improvements which should be included in the action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other relevant evidence. The annual governance statement is considered by the Senior Leadership Team and the corporate governance group before it is submitted to this committee ahead of its consideration by Council (29th September) for approval as part of the Statement of Accounts.
- 1.4** The process has identified a number of control issues, and these are highlighted in the annual governance statement. Officers will work with the respective Directors to produce an action plan with key milestones which address these issues. The corporate governance group will monitor progress and will report back to the audit committee.

2. Reasons for recommendations

- 2.1** The Annual Governance Statement will form part of the audited statement of accounts which will be formally approved by the Audit Committee on 21st September 2011 and the outcome of the audit of the accounts and the audit committee meeting will be verbally reported to council 29th September 2011. Suggestions for the action plan are sought to ensure that all of the Significant Issues have been identified

3. Alternative options considered

3.1 None

4. Consultation and feedback

4.1 The results of the annual assurance review have been considered by the Senior Leadership Team and the corporate governance group.

5. Performance management – monitoring and review

5.1 A monitoring report will be brought to Audit Committee in January 2012.

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Appendices	1. Annual Governance Statement
Background information	None

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Annual Governance Statement 2010 - 2011

Scope of responsibility

1. Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Cheltenham Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Cheltenham Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
3. Cheltenham Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government.
4. You can download a copy of the [Local Code of Corporate Governance](#) (pdf) or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA
5. This statement explains how Cheltenham Borough Council has complied with the code and also meets the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

The purpose of the Governance Framework

6. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of Cheltenham Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
8. The governance framework, which was revised and approved by the Audit Committee in January 2010 and approved by Council March 2010. It has been in place for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework

9. The code of governance identifies a number of principles that underpin the effective governance of the council, and these have been used when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are set out below:

Principle 1 - Focusing on the purpose of the Council and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.

10. The council agreed in March 2010 a 5 year Corporate Strategy (2010 -15) that included an action plan for the 2010-11 which clearly articulates how the council will deliver better outcomes for the community either directly or in partnership. This was based on the sustainable community strategy – a document which was drawn up following extensive public consultation (Cheltenham 20:20) on key issues and priorities for the town and which sets out a long term vision for Cheltenham. The action plan also took on board advice and comment from the Improvement and Development Agency following a peer review.
11. The Corporate Strategy is updated on an annual basis to reflect new priorities and any issues which have arisen since it was approved to provide a clear work programme based on priorities for the council. This document is approved by council. Monitoring reports are considered by the senior leadership team and taken to meetings of the overview and scrutiny committees to ensure that the council's objectives are progressing as planned.
12. The Cabinet agrees a Medium Term Financial Strategy which is in line with the priorities as set out in the council's business plan and identifies any expenditure which may need to be incurred to meet new legislation or changes in service provision. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the council has described within its Medium Term Financial Strategy how it will broadly achieve the budget gap target while keeping council tax at a reasonable level. Each year the council looks to areas where it can make its efficiency savings, budget cuts or additional income, which will not impact on its ability to deliver in priority areas.
13. The budget monitoring during 2010-11 predicted a £2.4m budget shortfall for 2011-12 because of expected central government cutbacks and reduced income. To address this shortfall a series of 21 consultation events and citizen panels were undertaken at a number of venues across the borough. These events involved staff, elected members, members of the public and community groups to decide which services could be protected, reduced or stopped. The results were used by officers and elected members to help formulate a prioritised budget.
14. The council has a well established web site with many services online, including a "report it" tool which was used 591 times during the year to tell us about issues of concern. We also took steps to improve the interactive nature of the website by developing systems that allow improved access to council services and information.
15. The council makes significant use of the local media including face book, twitter and You Tube in order to get across key messages and to receive feedback,

staff and members are also made aware of issues that have been discussed in the media through monthly briefings.

16. The council has been working with the police and county council on a neighbourhood-based approach to helping local residents tackle and resolve local problems. There are 14 neighbourhoods in Cheltenham with coordination groups that meet every 3 months to agree local priorities, councillors and officers take part in the group meetings to help co-ordinate agreed courses of action.
17. The Government cancelled the Place survey in the October 2010 as part of its agenda to decentralise government controls. The council continues to undertake service specific user surveys as well as using customer feedback from its corporate complaints and comments system to improve service quality. It also makes use of other sources of information and needs analysis from national, regional and county organisations to formulate its own priorities.
18. The leader and chief executive of the council sit on the Cheltenham Strategic Partnership (CSP) which supports the delivery of the sustainable community strategy. Cabinet members sit on the six thematic partnerships which support the CSP in the delivery of the vision and each partnership has a part-time partnership officer. The council also supports partnership work at a county level to ensure that the vision and aspirations of Cheltenham are supported through Leadership Gloucestershire. The CSP has an agreed work plan which is published on its website that identifies its priorities and the progress being made.
19. The Cheltenham Strategic Partnership and its thematic partnerships have agreed governance arrangements, including terms of reference, membership and identification of partnership risk. Partnership structures are currently being reviewed and new governance arrangements will be brought forward.
20. Members of Executive Board have each agreed to take a lead on one of the thematic partnerships, and along with the relevant Cabinet member are able to ensure that the council's views are fully represented at partnership meetings.

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles.

21. The council's constitution defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The Cabinet has executive powers and make decisions within the overall policy framework (5 year Corporate Strategy and budget) as set by the council.
22. There are three overview and scrutiny committees which hold the Cabinet to account and assist with policy formulation. The council has two committees which deal with governance, internal control and ethical arrangements, (Audit Committee and Standards Committee), as well as a Staff and Support Services Committee which dealt with employee related matters until it was discontinued on the 15th February 2011. In addition there are two quasi judicial committees which deal with licensing and planning. The council's constitution is approved by council, and is subject to periodic review.

23. Having considered the KPMG Public Interest Report relating to the Council's decision-making process for the Council's High Court Action against its former Managing Director, the Council approved an Action Plan to respond to the recommendations in the report. The Action Plan has been monitored on a quarterly basis by the Audit Committee. A number of requirements of the Action Plan led to amendments to the Council's Constitution which, following consideration of a report by a Working Group of Members (Constitution Working Group), were approved by the Council in December 2010. One of the changes to the Constitution is that the Staff and Support Services Committee was discontinued with effect from the 15th February 2011. A comprehensive review of the Constitution is underway and is due to be completed in October 2011.
24. The council's Audit Committee meets four times per year and its terms of reference are set out in the council's constitution. The council's external auditors have access to the committee, and the committee also has responsibility for overseeing the risk management process. A review of the Risk Management Policy took place in March 2011 to ensure that it reflected the changes brought about by the Senior Officer restructure, the recommendations within the Public Interest Report and amendments to the Corporate Risk Register template. The Audit Committee also receive routine information papers on the work of the Corporate Governance Group which monitors Significant Issues arising from the Annual Governance Statement.
25. The Council has a Chief Executive who is the Head of Paid Service as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the Council's activities, including its management structure, the number of staff employed and their salary grades.
26. The council has also appointed a monitoring officer (to ensure decisions comply with legislation and that the council has robust procedures in place to prevent maladministration) and a section 151 officer (to ensure that the council's financial arrangements are sound), these are both statutory appointments.
27. The Senior Leadership Team provides guidance and advice to Members on policy options and implications. All reports identify options, the financial, legal and HR implications, any risks associated with the matter, as well as how it addresses priorities within the Corporate Strategy.
28. The council has an internal audit function which reports to the council's audit committee. During 2009/10 the council agreed to the establishment of an audit partnership with Cotswold District Council, with a shared audit management post. The new arrangements have resulted in a more resilient audit service and the ability to create trainee posts which may assist with succession planning.
29. The council has external inspection and audit undertaken by KPMG the external auditors appointed by the Audit Commission and their annual management letter is presented to Members.
30. In September 2010 KPMG published its report to those charged with governance (ISA 260) where they confirmed that the wording of the 2009/10 Annual Governance Statement accords with their understanding. They also concluded that the council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

31. The Corporate Governance Group chaired by the Chief Executive reviews the effectiveness of the council's internal controls and reports the results to the Audit Committee. The council has a treasury management panel with cross party support from Members that oversees the council's treasury management strategy and an asset management working group that oversees the way in which the council manages its property assets.
32. The council's policies are easily accessible to employees and Members on the intranet and runs update/briefing seminars as appropriate.

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour.

33. In 2004 the council adopted a series of nine values that underpin everything it does these are promoted to staff and Members on the intranet.
34. The code of corporate governance was reviewed during 2009 and a revised code adopted by council in January 2010. This code clearly sets the aspirations of the council in ensuring that there are effective governance arrangements.
35. All Members and officers are subject to a member and officer code of conduct, and periodically training sessions are held. Both Members and officers must declare interests and a register of interests is maintained. The council's monitoring officer and standards committee are responsible for ensuring that reported breaches of the code are investigated appropriately.
36. The Chief Executive and other members of the Senior Leadership Team routinely promote good governance messages to employees and Members through the employee blog and Twitter.
37. Members of staff are encouraged to shadow the Chief Executive to promote their understanding of the wider aspects of the council's work. They are then given the opportunity to be a guest on the Chief Executive's blog to provide their views on the experience to other staff.
38. The council has a complaints process and quarterly reports analysing the nature and type of complaint are considered by the senior leadership team.
39. There is a competency framework for its employees who are assessed through the annual appraisal process and these competencies reflect the core values of the council which underpin good governance arrangements.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

40. In December 2010 the Council considered its obligation to adopt new executive arrangements; either a new style strong leader and cabinet model or a directly elected Mayor and cabinet model. Following a period of public consultation and a debate at full Council it was decided that a new style strong leader and cabinet model be adopted to take effect from May 2012. As the council already operates executive style arrangements the main differences with the new

model are that the leader is appointed for a 4 year term (but may be removed earlier by Council) and the leader must appoint a deputy leader.

41. The leader can delegate their executive functions to members of the Cabinet or to officers and this is set out in the council's constitution. All meetings of Cabinet are held in public, agendas are published in advance and the minutes of the meetings are available on the council's web site or for public view in libraries and the council offices. Decisions made by the Cabinet must be in accordance with the policy framework which is approved by council.
42. Arrangements are in place for other council committees with published agendas and minutes. For all meetings of the council the public are able to ask questions (with advance notice).
43. There are three overview and scrutiny committees which hold the Cabinet to account and have (subject to criteria) the ability to call in decisions of the Cabinet.
44. In March 2010 the Council agreed a 5 year Corporate Strategy (2010-2015) alongside an action plan for 2010-11. The senior leadership team has collective ownership in ensuring that the Corporate Strategy and its supporting actions are monitored and delivered.
45. The council has a performance monitoring system which provides up to date information as to how the council is performing against a number of performance measures and milestones including those set out in the corporate strategy and action plan. The use of this system was reviewed in 2010 and new more informative quarterly reports were presented to the Senior Leadership Team and overview and scrutiny committees.
46. The council also prioritises expenditure based on need and provides scrutiny and Cabinet with quarterly budget monitoring reports. The council has an appraisal process where all employees are set objectives for the coming year which meet the business plan priorities.
47. The council approves the council's standing orders, financial rules and scheme of delegation and these are periodically reviewed to ensure that they are still relevant and appropriate. The staff and support services committee played an important role in reviewing the council's constitution ensuring that changes are considered in greater detail ahead of their consideration by council. The council has a risk management policy which was revised and approved by the audit committee in March 2011 and clearly identifies roles and responsibilities for both Members and staff.
48. The senior leadership team is responsible for the management of Corporate risks. The corporate risk register which includes the risk, mitigating actions and responsible officers is updated and reported to them on a monthly basis. These risks are also reported to Economy and Business Improvement overview and scrutiny committee and the Cabinet. Divisional risks are the responsibility of Directors and individual service managers. Any divisional risk that has corporate implications and scores 16 or over is escalated to the senior leadership team for consideration.
49. During 2009/10 the Council received a public interest report from its auditors in relation to the decision making process on a legal case. The report was considered by the council including a number of recommendations; an action

plan was developed to address the issues raised. Progress reports on implementing the recommendations reported to Audit Committee throughout the year and published on the council's website.

50. The council has a whistle blowing policy which was revised in July 2010 and an anti-fraud and anti-corruption policy. These documents are available on the council web site, and accessible to Members and employees from the intranet site.
51. The Office of Surveillance Commissioners carried out an inspection of the council's procedures for complying with the requirements of RIPA during April 2010. The report made a number of recommendations which were addressed at the Economy and Business Improvement Overview & Scrutiny Committee in July 2010. Following the report processes were revised and all staff with the potential for becoming involved in surveillance or its management attended professional training. These powers were not used during 2010-11.
52. The council has an Information Management Group that routinely reviewed information management and data protection procedures and processes. Internal auditors reviewed the Corporate Governance arrangements following the 2009/10 assurance check which led to a number of further improvements to the process and reporting protocols.
53. The council's budget is set annually and agreed by council. Monitoring reports are presented to Cabinet and an outturn report and annual statement of accounts is approved by the council.
54. The council manages its budgets through cost centre managers who are responsible for the day to day management of their income and expenditure in line with financial rules. The council reports how it intends to balance its budget when the council approves the budget proposals each February and reports progress in the quarterly Budget Monitoring Reports to Cabinet.

Principle 5 - Developing the capacity and capability of Members and officers to be effective.

55. There is a People and Organisational Development Strategy that sets out the council's longer term aspirations for member and officer development, together with an annual action plan. There is a member training programme, which is supported by both the human resources division and democratic services. Generic training needs for Members are identified in consultation with Members and group leaders. All Members have personal learning accounts on the council's Learning Gateway, to log training needs and record training undertaken.
56. During the course of the year the council's external auditors identified the need to review the way in which the council delivers training to its Members and this has resulted in a greater input from the human resources division, better usage of the council's learning gateway system and proposals for supporting new Members following the election (e.g. "buddying" new Members with officers to help them orientate themselves into the council). A new on-line risk management training module for Members and staff has been developed which is available through the learning gateway.
57. Officer training needs are identified through the appraisal process, and the Senior Leadership Team and service managers have recently completed a

senior leadership development programme, and are trialling use of the “balanced scorecard”. The council has adopted a coaching relationship for strategic directors, assistant directors, and service managers within the organisation.

58. The council has adopted a programme and project management approach to its key change programmes and has released capacity for programme and project support. This approach has enabled the better use of resources to focus on the key delivery issues.
59. Following the May 2010 elections certain Members were appointed to represent the council on outside bodies i.e. companies, charities and unincorporated associations. The council's constitution includes guidance to officers and Members who take an active part in these organisations. This guidance was reviewed and updated to reflect best practice and changes to the CBC Code of Members' Conduct. The Guidance includes a checklist of issues that should be considered in the event of being nominated to an outside body.

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability

60. Council, Cabinet and committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings. The council has an adopted equality policy which recognises the need to engage with different sections of the community and has a community engagement strategy.
61. The council has a complaints and comments system for members of the public. There is a three stage complaint system which gives divisions an opportunity to resolve a complaint at the first point of contact, but if a complainant is still unhappy they are entitled for the matter to be investigated on behalf of the chief executive. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the council's complaint system.
62. The council publishes a leaflet with its council tax demands which summarises performance and at the end of each financial year also publishes an annual report.
63. In July 2010 the council agreed and published guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at council or the matter being considered by one of the overview and scrutiny committees.
64. The government introduced a legal requirement for reporting remuneration of senior employees to increase transparency and accountability in local government. They also made a commitment for all local authorities to publish data on its spending on goods and services over £500. The council published senior officer remuneration as part of its annual accounts and as of the 31st October in line with government guidelines. There are plans to include and publish information on contracts and tenders in the next 12 months which will be linked to the expenditure data.

Delivery through third parties

65. The council delivers its housing management responsibilities through Cheltenham Borough Homes (CBH) an arms length management organisation and wholly owned company of the council. CBH has its own internal control procedures and arrangements which are subject to internal and external audit as well as independent inspection. Annually, the Internal Audit Partnership review the procedures and policies and report on the adequacy of arrangements. The company policy is overseen by a board of directors which includes tenants and CBH also has an audit committee.
66. A resources committee oversees CBH finances, manages HRA finances and reports to the board of directors. The board receives quarterly reports on performance. CBH has a service level agreement with the council and the management fee and level of service is agreed on an annual basis. Monthly monitoring meetings are held to discuss performance. Payroll and payments services are administered by CBC on behalf of CBH and the company shares the council's financial ledger system. CBH completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.
67. The council is a shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the companies act. There is a board of directors which monitors the company's performance and is responsible for internal control activities. The airport has a commercial director and company secretary as well as an airport director. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and to the shareholders, and are approved at the AGM in September. The council's Director of Resources or designated representative receives regular management accounts for the airport, and either he or the strategic director attends the monthly airport programme board meetings. The company secretary completes an annual assurance certificate to confirm compliance with the agreed governance arrangements.

Review of effectiveness

68. Cheltenham Borough Council has responsibility under the local Government Act 2011 for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control and the arrangements for the management of risk. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the audit partnership manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. This year it also draws on the public interest report that it received from KPMG.
69. The effectiveness of the governance framework draws on evidence from:
- Internal and external audit and inspection
 - Statutory officers group
 - Financial controls
 - Risk and performance management
 - Assurance statements from each division

- Legal standards
 - Code of corporate governance
70. The council approved the code of corporate governance and it has established a Corporate Governance Group which oversees the review of the effectiveness of the code of corporate governance and internal control. All directors have to complete an annual statement of assurance which outlines the key control areas to which the division should comply.
71. The Corporate Governance Group reviews the statements to identify common themes which need to be reflected in any action plan. Individual Directors are expected to take forward any specific control improvements within their own service plan. These certificates along with evidence from other sources such as audit letters, internal audit reports, corporate controls and the code of corporate governance are reviewed by the Director of Resources, audit partnership manager and the policy officer governance who identify governance and control issues to be included in the annual governance significant issues action plan for the forthcoming year.
72. The audit committee approves the Annual Governance Statement as part of the statement of accounts. The audit committee are then responsible for monitoring progress against the actions taken, or proposed, to deal with significant governance issues.
73. Although internal control procedures are the responsibility of officers, major service issues, budgets and risks are discussed with the relevant Cabinet member. There is also a Cabinet member who has responsibility within their portfolio for corporate governance, internal audit and risk. Regular briefings are held with the Cabinet member so that they are aware of any issues.

Significant governance issues

The Senior Leadership Team and the Audit Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

Control issue and source April 2009-10	Action	Lead officer
The new management structure, partnership working and recommendations from the PIR necessitate a revision of the Constitution and Financial Rules	Review ongoing to be reported to Council during 2011	Monitoring officer Director of Finance

Control issue and source April 2009-10	Action	Lead officer
Planned constitutional and Financial rule changes and the restructuring of the Senior Leadership Team necessitate a review of the Annual Assurance process to ensure that it remains effective	Provide a report to SLT by September 2011 the proposals for the annual assurance review for 2011-12	Director Resources
The current audit of payroll highlights that controls could be put at risk due to anticipated short term resource constraints in the payroll team. <i>Audit Assurance report carried forward from 2010-11 SIAP</i>	Payroll resilience is being addressed through temporary recruitment of expertises as required. In addition the GO partnership project will address resilience issues in the longer term.	Director People OD and Change
The Business Continuity Group identified the need for a robust test of back-up ICT systems	Upgrade back up systems and install new equipment to migrate the key business systems. A series of assurance tests are planned to take place between July and September 2011	Graham Lewis Strategic Director
CBC needs to comply with the general equality duty to meet new obligations being placed on all public sector organisations under the Equality Act 2010 and ensure that current processes are embedded within the organisation	Review and refresh the Equality and Diversity processes and the Project Initiation Document template	Director of Commissioning
Some routine audits have identified examples of non adherence to the financial rule requiring monthly reconciliations of systems to the main finance system.	In consultation with GO partners, review the financial rules to determine a whether a more appropriate level and frequency of reconciliation should be considered. Review processes undertaken by service managers and within the future GO shared services. Target September 2011.	Director Resources

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed: On behalf of Cheltenham Borough Council

Leader of Council

Chief Executive

.....
Councillor Steve Jordan

.....
Andrew North

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**Cheltenham Borough Council
Audit Committee – 22 June 2011
The Bribery Act 2010**

Accountable member	Cabinet Member Corporate Services , Councillor Colin Hay
Accountable officer	Mark Sheldon, Director of Resources
Accountable scrutiny committee	Economy and Business Improvement (E&BI)
Ward(s) affected	None
Key Decision	No
Executive summary	The Bribery Act 2010 comes into force 1 st July 2011 the main purpose of which is to prevent bribery and corruption by commercial organisations.
Recommendations	That the Audit Committee take account of the changes effected by the Bribery Act 2010 and the proposals to review and update any necessary changes to the Council's procurement procedures, anti-fraud and anti-corruption documents.

Financial implications	<p>None arising out of this report</p> <p>Contact officer: Mark Sheldon</p> <p>Email mark.sheldon@cheltenham.gov.uk,</p> <p>Tel no; 01242 264123</p>
Legal implications	<p>As contained in the report</p> <p>Contact officer: Martin Aylett</p> <p>martin.aylett@tewkesbury.gov.uk</p> <p>Tel; 01684 295010</p>
HR implications (including learning and organisational development)	<p>Para 3.4 outlines the main HR implications. Employment policy and guidance will be reviewed where required, however there are measures in place, for example the Code of Conduct has been recently reviewed and refreshed and awareness planned. The Council also has an annual declaration of interest procedure in place for employees.</p> <p>Contact officer: Amanda Attfield</p> <p>Email: amanda.attfield@cheltenham.gov.uk</p> <p>Tel. no; 01242 264186</p>

Key risks	If the council does not have adequate procedures to prevent bribery and corruption then it could lead to ill-informed decisions, increased costs and the loss of reputation.
Corporate and community plan Implications	The effective prevention and detection of bribery and corruption helps protect resources allocated for the councils corporate and community objectives.
Environmental and climate change implications	There are no specific environmental or climate change implications arising from the report.

1. Background

- 1.1 The Bribery Act 2010, which overhauls the anti-corruption laws, will come into force 1st July 2011. It is mainly aimed at commercial organisations but there are some implications for local authorities.
- 1.2 Councils will be expected to demonstrate they have implemented “adequate procedures” in order to prevent bribery. The Ministry of Justice has just published guidance on what steps can be taken by organisations to show that they have “adequate procedures” in place. These steps include:
- Carrying out risk assessments to identify and prioritise the risks faced by the organisation
 - Implementing policies to mitigate the risk of bribery
 - Reviewing arrangements with contractors and sub-contractors to ensure that they reflect a commitment to anti-bribery measures
 - Communicating anti-bribery policy and procedure across the organisation and arranging anti-bribery training, where necessary.

2. What is the the Bribery Act 2010

- 2.1 The Bribery Act applies in England and Wales and simplifies the existing law on bribery, enabling the courts to deal with it more effectively.
- 2.2 The Act creates offences of, amongst others, bribing another person/company/public body or accepting a bribe in return for giving an advantage to the briber.
- 2.3 Of particular interest to the Council, however, is the offence under section 2 in which a person “requests, agrees to receive or accepts” an advantage of some kind in return for improperly performing, or allowing the improper performance of, a “function or activity” where that function/activity is ether of a public nature or done in the course of a business.
- 2.4 In the local authority context, a function or activity will be a “relevant function or activity” for the purposes of the Act if it is of a public nature and a person performing it is expected either (a) to perform it in good faith, (b) to perform it impartially or (c) the person is in a position of trust by virtue of performing it. If the function/activity is caught under one of these tests, then the Act states that it will be “improperly performed” if there is a breach of a “relevant expectation”. This “expectation” is itself an objective test of what a reasonable person would expect in relation to the function/activity.
- 2.5 The Act makes it clear that if the bribery offence is committed with the consent/connivance of a senior officer of the local authority, then that person is also personally guilty of an offence.
- 2.6 Penalties under the Act include fines and/or imprisonment for up to ten years.

3. What are the implications for the council?

- 3.1 The Council could therefore be guilty of bribery if, for example, it agrees to “fix” a procurement evaluation process in the briber’s favour in return for some advantage. It would also be possible for the Council to be guilty of bribing a supplier if it offers some sort of advantage to a supplier in return for the supplier agreeing to improperly perform an activity connected with the running of its business (e.g. bribing the supplier to submit a lower-priced bid than it would otherwise have done).
- 3.2 The Office of the Government Commerce is likely to publish updated standard clauses on the prevention of corruption, which take into account the Act’s provisions and which we will need to consider including in our contracts. It will also be necessary to address in our contracts the consequences of a supplier being found guilty of a Bribery Act offence. For example, the prosecution of a major supplier for negligent failure to prevent bribery is likely to be embarrassing to the Council, which may wish to have the option of immediately terminating the contract in these circumstances.
- 3.3 It establishes among its key provisions distinct general criminal offences for those “offering” and those “accepting” bribes. There is guidance to relevant commercial organisations on a defence of having “adequate procedures in place designed to prevent” bribery and there is broad agreement that in order to qualify for the defence the Council must be able to demonstrate that its procedures work in practice.
- 3.4 Policies will need to be reviewed and training needs documented, records of auditing and assurance measures will be required, gift and external interests registers must be kept and a zero tolerance to bribery and corruption policy publicised both internally and externally to identify but a few of the recommended steps.
- 3.5 During 2011 officers will be reviewing a number of their policies and procedures as well as providing a summery of the Bribery Act and its implications to members and staff through the councils intranet.

4. Reasons for recommendations

- 4.1 Audit Committee need to be aware of the new legislation, its effect on the administration of the council’s business and what is being done to ensure that there are adequate procedures in place to prevent bribery.

5. Alternative options considered

- 5.1 None

6. Consultation and feedback

- 6.1 None

7. Performance management –monitoring and review

- 7.1 None

Report author	Contact officer: Bryan Parsons Policy officer - Governance Email; bryan.parsons@cheltenham.gov.uk, Tel; 01242 264123
Appendices	None

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**Cheltenham Borough Council
Audit Committee – 22 June 2011
Annual Audit Opinion 2010/11**

Accountable member	Corporate Services - Cllr Colin Hay
Accountable officer	Audit Partnership Manager - Robert Milford
Accountable scrutiny committee	Economy and Business Improvement Overview and Scrutiny
Ward(s) affected	All
Key Decision	No
Executive summary	<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. 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 Report 2010/11 provides;</p> <ul style="list-style-type: none"> • An overview of the operational arrangements which support the continued delivery of an effective internal audit function, • A summary of the work undertaken during the year, • My internal control opinion for the year, which is primarily based on the work of the Section but also considers other control assurance sources. <p>The Annual Audit Opinion 2010/11 is attachment A</p>
Recommendations	That the Audit Committee accepts the Annual Audit Opinion for 2010/11

Financial implications	<p>None arising directly from this report.</p> <p>Contact officer: Mark Sheldon E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123</p>
Legal implications	<p>There are no Legal issues arising directly from this report.</p> <p>Contact officer: Peter Lewis E-mail: peter.lewis@tewkesbury.gov.uk Tel no: Main Office, Mon, Wed & Fri 01684 27 2012 Branch Office, Tues & Thurs 01242 26 4216</p>

HR implications (including learning and organisational development)	There are no HR issues arising directly from this report. Contact officer: Amanda Attfield E-mail: amanda.attfield@cheltenham.gov.uk Tel no: 01242 264186
Key risks	The delivery of an effective internal audit is a statutory requirement (Audit & 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
Corporate and community plan Implications	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.
Environmental and climate change implications	The Internal Audit service is an independent, objective assurance and consulting activity designed to add value and improve the Councils operations.

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 2010/11 (Appendix 1)

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 2010/11, 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 2010/11 was based on a self assessment against the CIPFA Code of Practice and Audit Partnership Board appraisal. A more in-depth assessment will take place in 2011/12 as part of the consolidation work with the three-way partnership.

4. Changes in the Internal Audit Service

4.1 The past year has seen the establishment of a new three way partnership between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 and has seen further improvement in service resilience and knowledge base. The service will be looking to consolidate and develop this three way partnership through 2011/12. This will include further development of programme assurance provision and methodologies for the commissioning approach that Cheltenham BC has adopted. This will ensure a sustainable, high quality service will continue to be delivered for the Council.

Report author	Contact officer: Robert Milford – 01242 264115 <i>robert.milford@cheltenham.gov.</i>
Appendices	1. Annual Audit Opinion 2010/11
Background information	

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Audit Cotswolds



COTSWOLD
DISTRICT COUNCIL



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

INTERNAL AUDIT REPORT

Cheltenham Borough Council

Annual Audit Opinion 2010/11

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 A**.

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 are no matters arising from the work during the year that are deemed a significant corporate control weakness, apart from the Council's Payroll system, Enforcement Team and Business Continuity. In these areas, the risks associated with the control issues raised in the audit reports are being actively managed by the responsible Service Heads.

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 implementation of the expanded Audit Partnership occurring midway through the financial year, to which this report relates, it was deemed appropriate to rely on two assessment aspects. The first was a self assessment reported to Audit Committee in June 2010. 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. A full review against the CIPFA Code will be conducted in 2011/12.

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 APB. The APB 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 Audit Partnership Manager 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. Although we have an Audit Charter and work to an approved annual plan, there is no directing audit strategy at this stage as the service is still embedding the partnership, with the main drivers coming from the business case objectives. However, 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. The underlying principles in relation to service delivery models and the 'internal' aspects of an internal audit service remain critical factors now that the service is delivered by a partnership.

The expansion of the audit partnership, and the restructure of the Senior Leadership Team, has resulted in the Audit Partnership Manager becoming the Head of Internal Audit for Cheltenham BC. This was originally a role delivered by the, as was, Assistant Chief Executive. This has enhanced the independence of Internal Audit and enables the Council to comply with CIPFA Code of Practice for Internal Audit (2006) and adopt the CIPFA standards for the Role of the Head of Internal Audit (2010)

Developing the Internal Audit planning process

The Audit Plan for 2010/11 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 2010/11 of unplanned work include a review of the Enforcement Team.

Resourcing

The service is now delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2010/11 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. In addition to the experienced team a new Internal Auditor with an ICT specialism was recruited to the partnership, further enhancing the sustainability of the service and covering a specialised auditing role. This post will help to provide the Audit Committee with assurance over the ICT systems at the Council, noting that Cheltenham BC is hosting the ICT solution for the GO Programme.

A supportive network has developed in recent years between the Internal Audit Sections across the Gloucestershire Districts and opportunities for sharing of resource to undertake audit reviews common to each District Council has been explored further during the year. We have provided audit resource to the GO Programme (an Enterprise Resource Planning (ERP) system for four district authorities and Cheltenham Borough Homes Ltd) on behalf of all districts. We have continued to develop relations with colleagues at the Gloucestershire Chief Internal Auditor Group which now includes representation from West Oxfordshire 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 are on the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification.

Looking forward

The past year has seen the establishment of a new three way partnership between West Oxfordshire, Cheltenham and Cotswold Internal Audit Services. This expanded partnership has been operational since 1st November 2010 and has seen further improvement in service resilience and knowledge base. The service will be looking to consolidate and develop this three way partnership through 2011/12. This will include further development of programme assurance provision and methodologies for the commissioning approach that Cheltenham BC has adopted. 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.

Acknowledgement

We would like to take this opportunity to formally record our thanks for the cooperation and support we have received from Members, management and staff during the year.

Robert Milford DMS MA PGDip CMIIA MCMi AMS

Audit Partnership Manager & Head of Internal Audit

Cheltenham Borough Council

Appendix A

Cheltenham Borough Council

Audit Partnership Manager & Head of Internal AuditOpinion 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 the Public Interest Report and the ICT Audit Report provided by KPMG.

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 2010/11 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 three areas where a 'Limited Assurance' opinion was deemed appropriate.

The Payroll system and supporting ICT application were both reviewed in 2009-10. The results of both aspects resulted in a 'Limited Assurance' opinion. The reviews had looked to the GO Programme and HR shared service with Tewkesbury Borough Council to resolve key elements of weakness in the systems. However, the shared service with Tewkesbury HR did not proceed and the GO Programme will not be in place until April 2012. The payroll resilience issue is being addressed by management but due to the issues identified it has been raised in the Annual Governance Statement process. This is a routine audit area and as such will be reviewed again in 2011/12, although ongoing monitoring through the GO Programme will be undertaken.

Street Scene Enforcement - We have undertaken a review of Management Controls and Performance Effectiveness of the Enforcement Team as requested by the Head of Public Protection. The exact scope was agreed over several meetings as we gained more information about problems and departmental concerns that they have encountered. The aim of the function has been a success i.e. bringing so many service delivery responsibilities together under one enforcement group is good and some positive feedback has been received. However, an effective control environment was not established early on to control its operations. The controls were not in place to make it clear what is expected from the team, in respect of role responsibilities and quality of service delivery demanded. The management control over effective and efficient operations, including mileage expense claims, has been generally weak. Significant improvements have recently been made and/or are still to be actioned.

The final area was in relation to 'Health Check' audits requested by management. The Health Check is a reduced audit designed to test elements of a system within a confined scope. The Health Check reviews identified that Business Continuity Plans 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'.

Other significant audit activity includes the survey of Risk Management. In November 2009 a review of the Risk Management framework at Cheltenham commenced. This review was used to assess the organisation against the CIIA scale of maturity [Naïve ⇒ Aware ⇒ Defined ⇒ Managed ⇒ Enabled]. This review resulted in the initiation of a Senior Leadership Team (SLT) sponsored assessment across the organisation of the general awareness of the systems in place in the Council. This work was reinforced, in part, by the Public Interest Report published in March 2010 by KPMG (the Council's external auditors). The results of this survey were reported to Audit Committee in September 2010.

In 2010/11 audit monitoring reports were introduced 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.

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

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

Audit Partnership Manager & Head of Internal Audit

Cheltenham Borough Council

Appendix (i)

Table of internal audit work in 2010/11

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 Community Investment Grants	Satisfactory	Final	Assurance
2 Environmental and Sustainability Management	Satisfactory	Final	Assurance
3 Enforcement Team Review	Limited	Final	Assurance
4 Procurement	Satisfactory	Final	Assurance
5 Equal Pay Claims		Deferred	
6 Everyman Theatre			Assurance
7 Cemetery & Crematorium	Satisfactory	Final	Assurance
8 Waste collection & recycling			Assurance
9 Car Parks - follow-up	Satisfactory	Final	Assurance
10 KPMG Public Interest Report Follow-up	Satisfactory	Final	Assurance
11 Asset Management	Satisfactory	Final	Assurance
12 Civic Pride (Now - Cheltenham Development Task Force)	N/A	Ongoing	Consultancy
13 Depot Rationalisation	N/A	Final	Assurance
14 Resource management / capacity (Portfolio Management Project)	N/A	Ongoing	Consultancy
15 Leisure @ - follow-up	N/A		Assurance
16 Review of CBC to CBH		Deferred	
17 Commissioning	N/A	Ongoing	Consultancy
18 Gardens Gallery (Health Check)	N/A	Final	Assurance
19 Building Control shared service		Ongoing	Assurance
20 GO programme assurance (Gateway Reviews)	N/A	Ongoing	Assurance
21 Human Resources - CBC lead			Cancelled
22 ICT - review/evaluation of the bid for hosting the GO Programme	N/A	Final	Assurance
23 Revenues & Benefits inc systems thinking	N/A		Consultancy
24 Customer Services inc TIC/AG&M		Deferred	
25 Petty cash reviews		Deferred	
26 Fraud response plans	N/A	Final	Consultancy
27 GO Programme Consultancy	N/A	Ongoing	Consultancy
28 Payroll	Limited	Final	Assurance
29 General Ledger	High	Final	Assurance
30 Budgetary Control	High	Final	Assurance
31 Capital Accounting	High	Final	Assurance
32 Treasury Management	High	Final	Assurance
33 IFRS (Health Check)	N/A	Final	Assurance
34 Creditors	Satisfactory	Draft	Assurance
35 Benefits	Satisfactory	Final	Assurance
36 Council Tax	High	Final	Assurance
37 NNDR	High	Final	Assurance
38 Sundry Debtors	Satisfactory	Final	Assurance
39 Cash Receipting	Satisfactory	Final	Assurance
40 Bank Reconciliation	High	Final	Assurance
41 AGS review	N/A	Final	Assurance
42 Performance Management inc data quality	Satisfactory	Final	Assurance
43 Risk Management - survey	N/A	Final	Assurance

44	Governance - Compliance - note new management structures			
45	Change Programme(s)	N/A	Ongoing	Consultancy
46	Business Continuity Management (Health Check)	Limited	Final	Assurance
47	Investigations	N/A	Final	
48	Corporate Governance Group	N/A	Ongoing	Consultancy
49	Town Hall Box Office	Satisfactory	Final	Assurance

End.



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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, telephone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Council's 2010/11 financial statements and the 2010/11 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Cheltenham Borough Council (the Council) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to June 2011.

Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in January 2011, set out the four stages of our financial statements audit process.



During March 2011 we completed our planning and control evaluation work. This covered our:

- review of the Council's general control environment, including the Council's IT systems;
- testing of certain controls over the Council's key financial systems with the help of internal audit;
- assessment of the internal audit function;
- review of the Council's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Council's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

VFM conclusion

Our *VFM Audit Plan 2010/11* issued in February 2011 described the new VFM audit approach introduced this year by the Audit Commission and highlighted the key changes compared to the previous Use of Resources auditor's scored judgements regime.

We have completed some early work to support our 2010/11 VFM conclusion. This included:

- undertaking a preliminary VFM audit risk assessment:

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.
- Section 5 set out the current status on the recommendations from the Public Interest Report.

Our recommendations are included in Appendix A. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix B.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Financial statements	Organisational and IT control environment	Your organisational control environment and IT control environment is effective overall. There are some areas for further improvement within the IT control environment.
	Controls over key financial systems	The controls over the key financial system are generally sound.
	Review of internal audit	Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.
	Accounts production and specific risk areas	The Council's overall process for the preparation of the financial statements is adequate. The Council has implemented a number of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements.
	IFRS restatement	The Council has made good progress restating its 2009/10 financial statements under IFRS. We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.
PIR	Follow up of Public Interest Report	The Council has responded positively to the Public Interest Report. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement. We consider the matter now closed for audit purposes.
Value for Money	Financial resilience	Our VFM audit risk assessment and work to date has provided good assurance on the Council's arrangements to secure value for money on its use of resources.
	Securing VFM	We still have to complete our programme of audit work to inform our value for money conclusion, to be issued in September alongside our opinion on the Council's accounts.

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Council's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall, but noted a number of areas for further improvement.

Aspect	Assessment
Organisational structure	3
Integrity and ethical values	3
Philosophy and operating style	3
Participation of those charged with governance	3
Human resource policies and practices	3
Risk assessment process	3
Information systems relevant to financial reporting	3
Communication	3
Monitoring	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Minor deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Your IT control environment is effective overall.

We noted a number of areas for further improvement.

Work completed

The Council relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We found your IT control environment is effective overall. We noted a number of areas for further improvement.

- We identified that a number of individuals within the finance team have ‘super-user’ access to the Aptos accounting software. Non-system administrators would not usually have this level of access and recommend it is considered and restricted in the future
- Agresso system build, where the number of organisations involved will increase the overall need for managing information security.
- There is currently no process in place to inform system administrators when an employee has transferred between different council services and may no longer require access rights to certain applications. Again this should be considered in the Agresso design requirements.
- The Council should consider formally defining access to computer systems based on groups of employees with similar roles and formally document/and review these groups/profiles on a periodic basis in order to reflect adequate segregation of duties. This will be increasingly important with the introduction of Agresso and ‘Go’.

Recommendations are included in Appendix A.

Aspect	Assessment
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations, incl. processing and backup	2
End-user computing	3

Key:

- 1 Significant gaps in the control environment.
- 2 Minor deficiencies in respect of individual controls.
- 3 Generally sound control environment.

The controls over the key financial system are generally sound.

Work completed

We work with your internal auditors to update our understanding of the Council's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the key financial systems are generally sound but we noted some weaknesses in respect of individual financial systems.

- Payroll – As we reported last year, there is no segregation of duties within the payroll system enforced at the level of system access. This has not been resolved in 2010/11 as a result of waiting for the 'Go' system to be introduced.

Internal audit also gave limited assurance for the payroll system in 2009/10 and included recommendations for improving controls. We will perform additional substantive audit procedures over payroll during our final accounting visit.

We have not yet assessed those controls that are performed as part of the closedown process and our testing will therefore be supplemented with further work during our final accounting visit.

System	Assessment
Financial reporting	3
Grant income	3
Housing rents income	3
Council tax income	3
Business rates income	3
Sundry income	3
Payroll expenditure	2
Non-pay expenditure	3
Benefits expenditure	3
Cash	3
Treasury management	●
Capital expenditure	●
Asset disposals	●
Asset valuations	●

- Key:
- 1 Significant gaps in the control environment.
 - 2 Minor deficiencies in respect of individual controls.
 - 3 Generally sound control environment.
 - To be completed at the final audit visit

Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.

Work completed

We work with your internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Council's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Code of Practice for Internal Audit in Local Government (the Code) defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

We last completed a full assessment against the Code in June 2010. We have updated our assessment based on that review and our knowledge through our work during 2010/11.

Based on our assessment, internal audit fully complies with the Code.

We did not identify any significant issues with the quality of internal audit's work and are pleased to report that we are again able to place full reliance on several of the internal audit reports of key financial systems.

This year has been a challenging year for Internal audit and as a result some of the internal audit reports we would have reviewed were not ready for our interim audit visit. We will discuss the timing of the both the interim and final 2011/12 audit visits with Finance and internal audit as the Council progresses through a period of significant change.

Aspect	Assessment
Scope of internal audit	3
Independence	3
Ethics for internal auditors	3
Audit Committee	3
Relationships with management, other auditors and other review bodies	3
Staffing, training and development	3
Audit strategy and planning	3
Undertaking audit work	3
Audit strategy and planning	3
Due professional care	3
Reporting	3

Key:

- 1 Non-compliance with the standard.
- 2 Minor deficiencies.
- 3 Full compliance with the standard.

The Council's overall process for the preparation of the financial statements is adequate.

The Council has implemented a number of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Work completed

We issued our Accounts Audit Protocol to Sarah Didcote on 19th April. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Council to provide to support our audit work.

As part of our interim work we specifically reviewed the Council's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

Key findings

We consider that the overall process for the preparation of your financial statements is adequate.

The Council has implemented several of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Council's progress against high priority recommendations.

Appendix 2 provides a status report of prior year recommendations.

Issue	Progress
<p>Issue – Testing of backups There is no formal testing of back ups.</p>	<p>The council anticipates that the forthcoming server replication implementation will allow periodic formal test restorations .</p>

The Council has made good progress restating its 2009/10 financial statements under IFRS.

We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the IFRS based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We have reviewed the work the Council has undertaken to restate its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS.

Key findings

The Council has made significant progress in restating the 2009/10 financial statements under IFRS.

As at March 2011, the approach to component accounting still needed to be finalised as well as disclosures on areas such as provisions and leases.

Further commentary is included below on the specific risk areas we identified in our *Financial Statements Audit Plan 2010/11* regarding the implementation of IFRS.

The Council has taken seriously the key risk areas we identified and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed


In our *Financial Statements Audit Plan 2010/11*, presented to you in January, we identified the key risks affecting the Council's 2010/11 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Paul Jones as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The table below provides a summary of the work the Council has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>Valuation of Investments</p> <ul style="list-style-type: none"> We will review the CBC valuation to ensure that it is consistent with LAAP 82 'Guidance on the Impairment of Icelandic Banks'. We will assess valuation assumptions for appropriateness. We will assess whether the Council has appropriately applied the Capitalisation Directive per the regulations released by the Department for Communities and Local Government in 2009. 	<p>We will review the valuation assumptions during our final accounting visit.</p>

The Council has taken seriously the key risk areas we identified and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Key audit risk	Issue	Progress
	<p>Implementation of IFRS</p> <ul style="list-style-type: none"> We will review the Council's progress on implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances. We will hold regular discussions with officers to identify areas of pressure where difficulties are being experienced. We will offer support and guidance during the convergence process. 	<p>We have undertaken a review of the Council's progress on implementing IFRS and noted findings on page 9.</p>
	<p>Valuation of Council Assets</p> <ul style="list-style-type: none"> We will review the Council's accounting policies for fixed assets to ensure that they are appropriately valued. We will assess valuation assumptions for appropriateness. We will review the Council's processes for identifying fixed asset and investments which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements. 	<p>We noted as part of our IFRS review that the component accounting policy for fixed assets is currently being finalised by the Council's finance team. Valuation assumptions will be reviewed during the final audit visit.</p>
	<p>Local taxes / rent arrears</p> <ul style="list-style-type: none"> During the interim phase of our audit we will review the Council's processes for collecting and recovering outstanding balances in relation to council tax, national non-domestic rates (NDR) and rent arrears. We will critically review the level of bad debt write offs and bad debt provisioning at the year end. We will perform a trend analysis of the level of balances over the last financial year and compare the Council's performance to similar organisations. 	<p>We noted no control exceptions during our interim audit work. We will review the level of bad debt write offs and bad debt provision during our final audit visit.</p>

Section four – VFM conclusion New VFM audit approach

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates.

Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of

greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly. Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the new VFM audit approach

The key elements of the VFM audit approach are summarised below.



The Council has responded positively to the Public Interest Report. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement.

We consider the matter now closed for audit purposes.

Background

In March 2010 we issued a Public Interest Report on the decision making process that led to the High Court action taken against the Council's former Managing Director, Mrs Christine Laird, in 2009. The Council's claim against Mrs Laird failed.

This outcome attracted much attention and interest from the public and media. The costs associated with the legal action and the long-term dispute with Mrs Laird were significant. As a result, we undertook a detailed review to identify the key factors and learning points associated with this outcome.

The Public Interest Report set out our conclusions and included 26 recommendations covering areas where the Council's processes needed to improve, or where established arrangements were not followed fully. The Report was considered and accepted at a special meeting of full Council on 22 March 2010.

The Council subsequently developed a detailed action plan to respond to our recommendations, and also those from its own Member Working Group, which considered the implications from the dispute with Mrs Laird relating to employment matters and dispute resolution.

Work completed

Our 2010/11 audit plan included provision for a follow up audit to consider the progress the Council has made against the issues and recommendations outlined in the Public Interest Report.

Our approach took account of the Council's own monitoring arrangements, notably the quarterly reports presented to the Audit Committee since the Report was published and the report issued by Internal Audit in December 2010 following their follow up review on a sample of our recommendations. We also supplemented this with discussions with key Council staff.

Key findings

The Council has responded positively to the Public Interest Report, which has received a high profile with officers and Members. It has clearly treated the issues raised in the Report seriously and has, to its credit, used it as a catalyst for change and improvement.

The Council's action plan in response to the Report was comprehensive, took account of a wide range of contributions and views and was well co-ordinated to link the actions in response to the Report with those arising from the Member Working Group review. Monitoring of progress against the action plan has been regular, detailed, comprehensive and publically available through the Audit Committee papers.

As well as instigating robust monitoring arrangements, the Council also commissioned its internal auditors to review its response into the Report. This provided useful and timely assurance that the planned responses would address the issues behind our recommendations and that the progress reports were accurate.

The action plan has been substantially delivered with only a minority of recommendations where there has only been partial implementation of the intended actions. In these cases the Council is still considering how and when to deliver the actions that remain outstanding.

These arrangements have predominantly focused on the delivery of actions, however. It would also be useful for the Council to consider whether intended outcomes and improvements have been achieved. For example a peer review of a sample of reports to Members could consider whether they have improved following the development of the new report template and guidance.

We consider the matter now closed for audit purposes.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>● Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>● Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>● Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
No.	Risk	Issue and recommendation
1	2	<p>Issue - no process for transfers</p> <p>Employees who have transferred between services may as a result no longer require all of their existing access rights to certain applications. There is currently no process in place to inform systems administrators of any transfers, or for line managers of transferred staff to inform HR/IT that their access rights to applications are no longer required.</p> <p>NB if staff require additional access rights, the line manager will request it from IT.</p> <p>Recommendation</p> <p>The Council should consider implementing a process to help ensure that systems administrators are informed of transfers and can therefore remove/restrict the employees access to IT systems based on their new role.</p>
		Management response/ responsible officer/ due date
		<p>The council will review HR and ICT processes which are currently used for new starters and for staff transferring between services to ensure system administrators are notified of changes required to systems access.</p> <p>Responsible officers: Julie McCarthy / Rachel McKinnon</p> <p>Due Date: September 2011</p>

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	2	<p>Issue - Aptos super users</p> <p>IT application systems generally allow the creation of accounts with "super user" access which have unrestricted access in order to perform system administration tasks. It is best practice to restrict the number of these accounts.</p> <p>The Head of Resources, Group Accountant and Head of Financial Services all have super user access to Aptos as a result of their roles in initially setting up the system.</p> <p>Allowing super user access to senior finance staff is not good practice due to the increased risks and potential for management override resulting from this unmonitored level of access.</p> <p>Recommendation</p> <p>The Council should consider if these non-system administrator users require this powerful level of access on an ongoing basis and restrict access accordingly.</p>	<p>Aptos 'super user' access will be removed from Director Resources and Head of Financial Services with immediate effect.</p> <p>The implementation of a new ERP system will factor in relevant personnel to 'super user' access when the new system goes 'live' in April 2012.</p> <p>Responsible Officer: Martyn Scull</p> <p>Due dates: Immediate affect and April 2012</p>
3	3	<p>Issue – no documentation of configuration changes</p> <p>IT application systems include a number of set parameters within which they operate. The Council's application systems do not have written procedures describing how parameter changes should be approved, implemented and checked, although we note that discussions with devolved system administrators confirmed that they are aware of their responsibilities regarding following appropriate testing for these changes.</p> <p>Recommendation</p> <p>The Council should document a process for configuration changes made within an application so that relevant system owners are aware of their responsibilities regarding approval and appropriate testing of these changes.</p>	<p>A process will be adapted from our internal ICT change management process. This can be distributed to system owners to maintain and record any changes they make to their configuration and record results of any testing carried out.</p> <p>Responsible Officer: Paul Woolcock</p> <p>Due date: A process will be drafted by September 2011.</p>

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
4	2	<p>Issue – documentation of access rules</p> <p>User groups provide an effective way of managing access rights to systems; a group can be set up with appropriate access rights and restrictions for a specific job role and users assigned to this group, rather than every individual having unique access rights.</p> <p>Although user groups to restrict access to specific functions/cost centres are being used in the majority of systems in scope for financial audit support testing (with the exception of payroll), there is no formal documentation available that reflects what access is given via assignment of these groups and how a new individual's group should be allocated. This has led to the development of many user groups based on individual users (usually one user per group) in Aptos, rather than groups based on job role. These individual user access rights may not have appropriate segregation of duties controls.</p> <p>Recommendation</p> <p>The Council should consider formally defining and documenting groups/profiles for each financial reporting system based on users job roles, with relevant segregation of duties rules also taken into account.</p>	<p>This will be picked up as part of the new ERP implementation which is due to go 'live' in Cheltenham in April 2012.</p> <p>Responsible Officer: Martyn Scull Due date: April 2012</p>

Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

A number of the recommendations may be relevant for the new Agresso system in the Go project.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	2	<p>Assessing outcomes from Public Interest Report action plan</p> <p>The Council implemented robust arrangements to monitor progress against the action plan prepared in response to our Public Interest Report. These monitoring arrangements have predominantly focused on the delivery of actions, however.</p> <p>It would also be useful for the Council to consider whether intended outcomes and improvements have been achieved. For example a peer review of a sample of reports to Members could consider whether they have improved following the development of the new report template and guidance.</p> <p>Recommendation</p> <p>Consider implementing appropriate measures to assess the impact and outcomes achieved from the delivery of the Public Interest Report action plan.</p>	<p>The council has introduced the new report template (including a risk assessment template) and improved its risk management process which now ensures that the corporate risk register is considered at the Senior Leadership Team meetings on a monthly basis.</p> <p>The council will consider a process for reviewing whether outcomes were achieved including the possibility of a peer review.</p> <p>Responsible Officer: Sara Freckleton Due date: April 2012</p>

Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our Interim and ISA 260 Audit Reports 2009/10 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	13
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	9

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
1	2	<p>Issue – Password control</p> <p>It is important to have strong password controls to limit the potential of access to IT systems from unauthorised external parties.</p> <p>During our interim work we identified that all application systems have weak password control in terms of password length and complexity. This increases the risk of unauthorised access.</p> <p>The Active Directory / Network password is strong but this only secures against external access. Some applications require additional controls such as the user being a member of an active directory group or having client software installed on their PC. These factors mitigate some of the risk in practice, but unauthorised access remains a real possibility.</p> <p>Recommendation</p> <p>Review access controls to applications and institute all practical mitigating measures to overcome limitations in password identification.</p>	<p>Access to the CHRIS21 system does require the client software being installed on the employees PC.</p> <p>However, this year’s audit of the system has already identified the current password controls as being weak.</p> <p>New password controls (i.e. conforming to ICT guidance for password length and complexity, and forcing users to change their password after a defined period of time) are due to be implemented for all CHRIS21 users.</p>	<p>Issue still stands</p> <p>CHRIS21 password controls have not changed since the previous audit; however management expect the implementation of the new Go system (replacing CHRIS21 in 2012) will clear this issue.</p> <p>In addition, Open Revenues taxation and benefits system password controls are weak as the ability to implement stronger complexity rules has only been added in a recent upgrade of the system; the council plans to improve this control in 2011/12.</p>

Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
2	2	<p>Issue – Payroll segregation of duties</p> <p>Segregation of duties within the payroll function ensures that staff members carry out their duties as per their job function and reduces the risk of employee overlap and fraud. Segregation of duties at the job function level should be replicated within the IT systems to minimise the risk of unauthorised access to systems outside the staff members remit.</p> <p>During our interim audit we noted that there is no segregation of duties in the payroll department, enforced at the level of system access. This implies that all payroll staff will be able to perform all functions on the system.</p> <p>Recommendation</p> <p>Formally document the level of access and functionality that each member of payroll staff needs for their job. Demonstrate how, in the absence of system controls, segregation of duties is achieved.</p>	<p>This is a consequence of having a small payroll team and access levels are set this way to ensure continuity of the service.</p> <p>Segregation of duties exists between those staff responsible for posts and those responsible for employees.</p> <p>Where possible, all data entry is independently checked and signed off.</p>	<p>Issue still stands</p> <p>There continues to be no system enforced segregation of duties within the payroll system, but the management response still applies in this situation.</p> <p>Implementation of the new ERP system in April 2012 will replace the Chris 21 payroll system and allow this control to be re-examined.</p>
3	3	<p>Issue – Leavers process</p> <p>Only current staff members should be able to access IT systems. Former staff members should have their access rights removed on leaving their job to ensure only appropriate persons have access.</p> <p>We identified during the interim audit that the leavers process had not been formally documented for any of the IT systems we reviewed. The Civica cash receipting system has not had any effective removal of leavers during the 2009/10 audit year.</p> <p>Recommendation</p> <p>Access to all key data should be strictly controlled through a formalised process, with appropriate authorisation retained for access. An effective and timely procedure to process leavers for all applications is essential to ensure that access is appropriate and to reduce the potential risk of fraud.</p>	<p>This is a consequence of having a small payroll team and access levels are set this way to ensure continuity of the service.</p> <p>Segregation of duties exists between those staff responsible for posts and those responsible for employees.</p> <p>Where possible, all data entry is independently checked and signed off.</p>	<p>In progress</p> <p>The leavers process has now been formally documented, however; our testing identified a small number of staff who had left the Council in the year under audit but not had their network access disabled.</p>

Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
4	1	<p>Issue – Testing of backups</p> <p>There is no formal testing of back ups. Whilst restoration of end user files is performed when requested, formal restores of financial application data has not been performed during the year. Without periodic testing of the backups in relation to financial application data, it is not possible to ensure integrity of the backup media.</p> <p>Recommendation</p> <p>The Council should consider: ensuring tapes contain data; restoring test files to a test environment; conducting a programme of full test restores as part of Disaster Recovery testing; and documenting the approach to recording and testing any restores to the live environment that may become necessary.</p>	<p>Regular restores from daily backups are performed.</p> <p>Restores / testing to be reviewed after site to site replication has been installed.</p>	<p>Issue still stands</p> <p>Although we note that restorations of specific files are performed as a result of end user requests, there are no formal test restorations of whole back-ups performed.</p> <p>However, the Council anticipates that the forthcoming server replication implementation will allow periodic formal test restorations .</p>
5	2	<p>Issue – Location of backup tapes</p> <p>In the event of a disaster it is essential that data can be retrieved quickly to ensure minimum disruption to council services. This can be achieved by taking regular back ups of IT systems and ensuring that back up tapes are kept securely.</p> <p>We noted that the most recent backup tapes are located in the ICT office. In the event of disaster to the main council site these might be lost, along with the ability to restore data up to one week previous.</p> <p>Recommendation</p> <p>The most recent backup tapes should be stored in such a way that in the event of disaster at the main council site, the tapes could be retrieved and used at the disaster recovery site.</p>	<p>The daily tapes are currently stored in a strong room at the Municipal offices.</p> <p>Investigations are underway to find an external location to store daily tapes.</p> <p>The council is looking to invest in site to site SAN data replication solution later on this year. The secondary site will be located at the Depot site.</p>	<p>In progress</p> <p>Backups are currently stored offsite at a site 4 miles away which restricts the ability to take offsite on a daily basis; however there is currently a plan to change this to a gallery nearby which could facilitate daily back-ups being taken offsite.</p> <p>In addition, there are data replication procedures being implemented which will allow replication of servers at the DR site 4 miles away; this is in the process of being implemented in the 2011/12 financial year.</p>

Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
6	2	<p>Issue – Lack of evidence of review of bank reconciliation The monthly bank reconciliation review is currently not evidenced by a signature and date and therefore no audit trail exists of the management review which is an important part of the control processes.</p> <p>Recommendation The bank reconciliations are signed and dated as evidence of the monthly review process.</p>	<p>Although regularly reviewed, the authority recognises that no formal signatory was evident for a number of reconciliations and has put in practice the requirement to ensure all future bank reconciliations are signed and dated.</p>	<p>To be reviewed at final audit visit</p>
7	2	<p>Issue – Lack of high level monthly payroll review We noted that currently there is no high level review of the payroll before authorisation and payment each month. A central high level review could check any significant month on month variances before payment of the payroll. There is limited payroll exception reporting with the current payroll system and this high level overview would provide added assurance until a new payroll system is introduced.</p> <p>Recommendation A monthly high level review examining any significant monthly variances would give additional assurances of the completeness and accuracy of the payroll payment which is one of the most significant costs of the council.</p>	<p>As agreed following the recommendations of the recent internal audit review, with effect from September 2010 the payroll BACS authorisation form and supporting papers will be reviewed and signed off by a manager independent of the payroll input team.</p>	<p>To be reviewed at final audit visit</p>

Follow-up of prior year recommendations

The Council has not implemented all of the recommendations in our *Interim Audit Report and ISA 260 report 2009/10*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response	Status as at March 2011
8	2	<p>Issue – Lack of evidence of review of income reconciliations We noted that currently there is a lack of evidence of the review of the income reconciliation of the debtors system to the cash receipting system using the daily ASH reports, as the reconciliation is not signed or dated.</p> <p>Recommendation The reconciliations are signed and dated as evidence of review which leaves a clear audit trail of the completion of the control.</p>	<p>The Senior Revenues Control Officer will in future initial and date the file as evidence of a weekly review. In addition the Revenues Manager will also initial and date the file when reviewing the reconciliation on a monthly basis.</p>	<p>To be reviewed at final audit visit</p>
9	2	<p>Issue – lack of documentation of the NNDR reconciliation We noted that there is a lack of evidence of the reconciliation between the NNDR and the IBS reports.</p> <p>Recommendation The reconciliations are signed and dated to evidence that the control is operating effectively.</p>	<p>A spreadsheet is completed documenting the reconciliation. As with issue 3 above, the file will be initialled and dated by the Senior Revenues Control Officer on a weekly basis and by the Revenues Manager monthly.</p>	<p>To be reviewed at final audit visit</p>



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Our ref

20 April 2011

Dear Andrew

Annual audit fee 2011/12

I am writing to confirm the audit work and fee that we propose for the 2011/12 financial year at Cheltenham Borough Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2011/12.

As we have not yet completed our audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the audit for 2011/12 is £108,290 (plus VAT). This compares to the planned net fee of £111,363 for 2010/11 (after the Audit Commission rebate for transition to IFRS).

Audit area	Planned fee 2011/12	Planned fee 2010/11
Financial statements (including Whole of Government Accounts)	108,290	113,989
Follow up of Public Interest Report	-	5,000
Sub total	108,290	118,989
Less: One-off IFRS reimbursement by Audit Commission	-	(7,626)
Total audit fee	108,290	111,363

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £25,000 plus VAT. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will

write to Mark Sheldon separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, that I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scale of fees for 2011/12 and the scale fee for Cheltenham Borough Council is £113,040. The fee proposed for 2011/12 is 4% below the scale rates and 5% below the 2010/11 audit fees for the financial statements and assumes no further follow up work on the PIR. The 2011/12 scale fee reflects significant reductions from the new approach to the VFM audit, where the volume of work has reduced compared to the previous use of resources scored judgements regime. Fees have also reduced because some of the additional audit costs associated with the introduction of International Financial Reporting Standards last year are not present in 2011/12.

In setting the fee at this level, I have assumed that:

- the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11, and
- the Go shared services project will not significantly impact on the 2011/12 audit as the planned transition is 1 April 2012.

A separate plan for the audit of the 2011/12 financial statements will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Resources and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

In line with previous years, the 2011/12 audit fee will fund our VFM audit work during 2011, leading up to the VFM audit conclusion which we will issue in September 2011. The VFM audit will be the first under the Audit Commission's new approach and will be structured around two themes:

- Financial resilience (considering financial governance, financial planning and financial controls); and
- Prioritising resources within tighter budgets (considering arrangements for prioritising resources and improving efficiency and effectiveness)

The new audit approach was set out in the VFM audit plan that I presented to the Audit Committee in March 2011.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Cheltenham Borough Council. Any such work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2011/12 audit are:

Name	Role	Contact details
Rachael Tonkin	Manager	Rachael.tonkin@kpmg.co.uk 0117 905 4654
Megan Lumsdaine	Assistant Manager	Megan.lumsdaine@kpmg.co.uk 0117 905 4266

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely



Ian Pennington
Director

cc: Mark Sheldon, Director of Resources

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- Go shared services project does not significantly impact on the financial statements for the year ended 2011/12, with the control environment during the year or the efficiency for preparing for the audit in the Summer of 2012;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2011/12 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be revisited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Financial Statements audit plan	January 2012
Interim audit report	June 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	30 September 2012
Annual audit letter	November 2012
Certification of grant claims and returns	January 2013

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Page 70

Cheltenham Borough Council

Audit Committee – 22 June 2011

The Future of Local Public Audit - Consultation

Accountable member	Corporate Services - Cllr Colin Hay
Accountable officer	Audit Partnership Manager - Robert Milford
Accountable scrutiny committee	Economy and Business Improvement Overview and Scrutiny
Ward(s) affected	All
Key Decision	No
Executive summary	<p>The Corporate Governance Group has reviewed the DCLG consultation document and drafted a response. However, as this document directly relates to the roles, responsibilities and structure of the Audit Committee it is important that the Council's Audit Committee Members have an opportunity to comment. It is envisaged, following Audit Committee comment, that an updated response would be sent to DCLG in time to meet the 30th June 2011 deadline.</p> <p style="text-align: center;">The Future of Local Public Audit Appendix A</p> <p style="text-align: center;">Corporate Governance Group draft response Appendix B</p>
Recommendations	That the Audit Committee considers and comments on the consultation questions

Financial implications	<p>None arising directly from this report. However, the costs associated with the Auditor and Independent Members will need to be addressed when the proposals are finalised.</p> <p>Contact officer: Mark Sheldon E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123</p>
Legal implications	<p>There are no Legal issues arising directly from this report. Although there will be implications arising when the proposals are finalised and enforced.</p> <p>Contact officer: Sara Freckleton E-mail: sara.freckleton@teWKesbury.gov.uk Tel no: 01684 272010</p>
HR implications (including learning and organisational development)	<p>There are no HR issues arising directly from this report.</p> <p>Contact officer: Amanda Attfield E-mail: amanda.attfield@cheltenham.gov.uk Tel no: 01242 264186</p>

Key risks	This consultation document relates to the role of the Audit Committee and the appointment of the Auditor. It is necessary to respond to this consultation to help inform the proposals so that inefficient or ineffective processes are not introduced.
Corporate and community plan Implications	N/A
Environmental and climate change implications	N/A

1. Background

- 1.1** On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2** The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3** This consultation (Appendix 1) paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.

2. Reasons for recommendations

- 2.1** The DCLG proposals directly impact on the roles and responsibilities of the Audit Committee and its structure. It is therefore appropriate for this committee to comment on these proposals.

3. Alternative options considered

- 3.1** The DCLG proposal offers, at various points, differing options of structuring the Audit Committee, process for appointment of the Auditor, etc. The Corporate Governance Group has responded to these various options (Appendix 2). The Audit Committee members are invited to comment and make further suggestions on the various options.

4. Monitoring and review

- 4.1** The Audit Committee will be informed of the results of the consultation when they are available.

Report author	Contact officer: Robert Milford – 01242 264115 <i>robert.milford@cheltenham.gov.</i>
Appendices	1. Consultation document 2. Question and answers document
Background information	



Future of local public audit Consultation



Future of local public audit

Consultation

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Ministerial foreword

“...The Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state. We need to redress this balance.”

Secretary of State for Communities and Local Government 13 August 2010

On 13 August, the Secretary of State for Communities and Local Government announced our plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

We want to drive power downwards to people. We want local public bodies to be more accountable to their citizens, to you the taxpayer, rather than upwards to Whitehall. That is what localism is all about.

The current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and the quality of local government audit, but, it has also become too focused on reporting to central Government and supporting the previous era of a target driven Government.

We are clear that centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on frontline services at a time when they must be tightening their belts and focusing on service delivery; they also drive a culture of compliance rather than initiative and problem solving. If our local services are going to be genuinely responsive, tailored to the needs of local people, then they must be accountable to those same people. This is why we want to put in place a new locally focused audit regime, which is open and transparent but retains the high quality of audit that we expect.

This consultation sets out our vision for the future of local audit. This vision is firmly based on four principles. The first of these is localism. When reforms are complete local public bodies will be free to appoint their own independent external auditors from a more competitive and open market. The second is transparency; local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when we are taking decisive action to reduce the deficit, we think it is important that we deliver a framework which sees a reduction in the overall cost of audit to local bodies. The fourth principle is high standards of auditing. Make no mistake, we are determined that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

To meet these principles, the consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. This appointment would be made on the advice of an independent audit committee.

Auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. We envisage that the National Audit Office will set the code of audit practice and we have put forward options for the scope of audit in the new framework. The consultation document also sets out how transparency will be increased in the new framework and our proposals for auditing smaller bodies with a turnover below £6.5m in a proportionate way.

Alongside these proposals, the consultation asks a number of questions, to which I would welcome your responses. Your contribution will help us to further develop the framework before publishing legislation in draft in the autumn.

We look forward to hearing your comments on how we can make the future of local audit robust and efficient while ensuring that local public bodies are truly accountable to those they serve.

A handwritten signature in black ink, appearing to read 'Grant Shapps'.

Rt. Hon Grant Shapps MP

Glossary

Accountancy and Actuarial Disciplinary Board

An independent board which has the ability to investigate and discipline accountants and actuaries who are members of the following professional bodies: the Association of Chartered Certified Accountants; the Chartered Institute of Management Accountants; the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.

<http://www.frc.org.uk/aadb/>

Charities Act 1993

The Charities Act 1993 sets out the regulatory framework in which charities operate.

http://www.charity-commission.gov.uk/About_us/Regulation/default.aspx

CIPFA

Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance.

www.cipfa.org.uk

Companies Act 2006

The Companies Act 2006 forms the primary source of UK company law.

<http://www.companieshouse.gov.uk/companiesAct/companiesAct.shtml>

Comptroller and Auditor General

Created by the Exchequer and Audit Departments Act 1866 to authorise funding to Government departments and examine departmental accounts, reporting the results to Parliament.

Drainage Boards

An operating authority, established in areas of England and Wales with particular drainage needs. The Board is responsible for work to secure clean water drainage and water level management.

<http://www.ada.org.uk/>

Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

<http://frc.org.uk/>

Freedom of Information Act 2000

Legislation which enables any member of the public to request information from a public body.

Grant Certification

The Audit Commission is required by the Audit Commission Act 1998 to make arrangements for the certification of grant claims when requested to do so by public bodies in receipt of grant funds.

Health and Social Care Bill

The Bill takes forward the areas of Equity and Excellence: *Liberating the NHS* (July 2010) and the subsequent Government response *Liberating the NHS: legislative framework and next steps* (December 2010). It also includes provision to strengthen public health services and reform the Department's arm's length bodies.

International Financial Reporting Standards

IFRS is an independent, not for profit private sector organisation which works on behalf of the public sector to develop standardised financial reporting standards.

<http://www.ifrs.org/>

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland in line with legislation, International Financial Reporting Standards (overseen by the International Accounting Standards Board) and the work of the Financial Reporting Advisory Board.

<http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm>

Lord Sharman

Liberal Democrat peer, previously the spokesman for Business, Enterprise and Regulatory Reform and former chairman of KMPG. Lord Sharman's review of audit and accountability for central government, *Holding to Account: the Review of Audit and Accountability in Central Government* was published in February 2001.

http://archive.treasury.gov.uk/docs/2001/sharman_1302.html

Management Commentary

A narrative report which provides the context or background to the financial position, performance and cash flow of an authority or public body.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent

and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

www.audit-commission.gov.uk/nfi

Police Reform and Social Responsibility Bill

The Bill will make the police service more accountable to local people by replacing police authorities with directly elected police and crime commissioners to be introduced from May 2012.

Professional Oversight Board

The Professional Oversight Board (POB), formerly known as the Professional Oversight Board for Accountancy, is a UK regulatory body specialising in the accounting, auditing and actuarial professions.

www.frc.org.uk/pob

Public Audit Forum

The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit.

<http://www.public-audit-forum.gov.uk>

Public Interest Reports

Under Section 8 of the Audit Commission Act 1998, the appointed auditor is required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public.

Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998 is an Act that protects whistleblowers from detrimental treatment by their employer.

Remuneration report

Companies produce a report containing certain information concerning director's remuneration, governed by the Directors' Remuneration Report Regulations 2002,

Section 151 officer

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

Special Health Authorities

Special health authorities are health authorities that provide a health service to the whole of England, not just to a local community. They have been set up to provide a national service to the NHS or the public under section 9 of the NHS Act 1977. They are independent, but can be subject to ministerial direction in the same way as other NHS bodies.

Unitary Authority

Since 1996 the two-tier structure of local government has ceased to exist in Scotland and Wales, and in some parts of England, and has been replaced by single-tier unitary authorities, responsible for all local government services.

Whole of Government Accounts

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of about 1500 bodies from central government, devolved administrations, the health service, local government and public corporations.

Section 1

1. Introduction

- 1.1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3. This consultation paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 1.4. This document has been developed by the Department for Communities and Local Government. Our proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.

What is audit and why is it important?

- 1.5. An audit is the review of financial statements, resulting in the publication of an independent opinion on whether those statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view. A summary of accounting arrangements for local bodies other than those in the health sector is at appendix A.
- 1.6. The audit of public bodies plays a key role in ensuring that those responsible for handling public money are held accountable for the use of that money. Public audit strengthens accountability, both upwards to the elected or appointed members who make decisions about the allocation of resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. Regular public audit also provides assurance on bodies' arrangements for managing their finances properly, including their arrangements for value for money and to safeguard public money.

Current arrangements for the audit of local public bodies in England

- 1.7. There are approximately 11,000 local public bodies which, together, are responsible for some £200bn of public money. Of these, there are 353 local authorities; 268 NHS bodies (in addition to Special Health Authorities audited by the National Audit Office, and Foundation Trusts); 38 police authorities; and 215 other bodies, including fire and rescue authorities; national park authorities; conservation boards; larger internal drainage boards, joint committees; and probation trusts. The remaining 9,800 bodies, with income or expenditure ranging from £1m down to £1,000 or less, comprise: 9,400 parish and town councils; 150 internal drainage boards; and 250 other bodies (for example, charter trustees and port health authorities). A list of the categories of bodies audited by the Audit Commission is set out in Appendix B.
- 1.8. The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 (as amended). Since its inception in 1983, the Audit Commission has acted as the regulator, commissioner and provider of local audit services.
- 1.9. Acting as the overall regulator, the Audit Commission publishes two statutory Codes of audit practice - one for local government bodies and one for health bodies - which are approved by Parliament. These set the standards for audit and require auditors to comply with the auditing and ethical standards issued by the Auditing Practices Board¹ (which is part of the Financial Reporting Council)². The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.
- 1.10. Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies.
- 1.11. The Audit Commission also acts as the main provider in the current system, with 70 per cent of local public audits undertaken by its in-house practice.

Proposals for a new audit framework for local public bodies

- 1.12. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. There is a lack of transparency and clarity as well as potential conflicts between the roles.
- 1.13. The proposals set out in this consultation build on the statutory arrangements and professional ethical and technical standards that currently apply to companies. However, those arrangements have been adapted to ensure that the principles of public sector audit are maintained.

¹ <http://www.frc.org.uk/apb/>

² <http://www.frc.org.uk/>

- 1.14. The proposed new local audit regime would continue to provide Parliament with the assurances it needs on public spending. The National Audit Office would prepare the Codes of audit practice, which prescribe the way in which auditors are to carry out their functions, and which would continue to be approved by Parliament, and associated guidance. The National Audit Office would also continue to audit Government departments providing funding to local public bodies and will continue to receive Whole of Government Accounts returns. Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies, under the supervision of the Financial Reporting Council (as this builds on their existing role in the regulation of private sector auditors) and its operating bodies.
- 1.15. Principal local authorities would appoint their own auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee. Different arrangements would apply for some other local public bodies and these are explained in section 3.
- 1.16. Localism and decentralisation can only work if central government is prepared to trust local bodies, communities and citizens. We have aimed to design a local audit system which provides the rigour needed for Parliament, but allows local public bodies to take more responsibility in the way they procure audit services. These changes go hand in hand with the Government's actions to increase transparency in local government and will help enable local people and local organisations to hold their local public bodies to account for the way that their money is spent.

Design principles

- 1.17. In proposing a new framework for local public audit, we have followed a set of design principles:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
 - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
 - **lower audit fees** – achieving a reduction in the overall cost of audit
 - **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit
- 1.18. These principles are not wholly independent. For instance, there is a clear relationship between the quality and scope of the audit and the level of audit fees. We wish to find the right balance to ensure an effective, robust, quality audit for local bodies while keeping fees as low as possible.

1.19. We have also had regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

Q1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

What this consultation covers

1.20. This consultation focuses on the audit of local public bodies that currently have auditors appointed by the Audit Commission. It sets out, in sections 2 and 3, our proposals for the regulation and commissioning of audit, including the various elements of the new regulatory framework and the role local public bodies will have when appointing an auditor. Section 4 covers the scope of local public audit and the work of auditors, while section 5 deals with the way that the proposed framework would apply to smaller local bodies, such as parish councils.

LOCAL BODIES COVERED BY THIS CONSULTATION

1.21. This document sets out proposals for a new framework for most bodies currently audited by the Audit Commission and listed in appendix B.

1.22. However, the Police Reform and Social Responsibility Bill, which is currently before Parliament, aims to make a number of significant reforms to the policing system. This includes provisions to abolish police authorities (excluding the City of London) and replace them with directly elected Police and Crime Commissioners for each police force outside London, and the Mayor's Office for Policing and Crime for the Metropolitan Police.

- 1.23. Police and Crime Commissioners (and Mayor's Office for Policing and Crime) will be responsible for holding the Chief Constable (and Commissioner for London) of their police force to account for the full range of their responsibilities.
- 1.24. Probation services, which used to be part of Local Government's remit, have been a responsibility of central government since consolidation into the Home Office in 2000-01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General. We believe, therefore, that probation trusts should in future be audited by the Comptroller and Auditor General.

Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?

- 1.25. Pension funds are not statutorily subject to a full audit separate from that of the local authority. However, the Audit Commission has used its regulatory powers to require pension funds to be audited separately. We propose to include pension funds on the list of local public bodies subject to the new local audit framework.
- 1.26. We consider that Joint Committees should remain subject to audit, but it will be for the constituent authorities making up the Joint Committee to decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits.
- 1.27. The abolition of the Audit Commission will also impact on the audit arrangements for local health bodies. Currently, the Strategic Health Authorities, Primary Care Trusts and NHS Trusts are audited under the Audit Commission framework. The Health and Social Care Bill, currently before Parliament, aims to abolish Strategic Health Authorities and Primary Care Trusts and provides for all NHS Trusts to become Foundation Trusts by 2014. The Department of Health is considering the governance and accountability arrangements for the new health landscape and these will help determine the appropriate audit arrangements. The local public bodies referred to in this consultation paper do not therefore include local health bodies. However, health bodies will be included in draft legislation on the proposals for the new local audit framework. The Department of Health will publish a paper summarising its proposals at the same time.

Audit Commission functions excluded from this consultation

- 1.28. There are a number of functions that are or have been carried out by the Audit Commission that are not considered as part of this consultation. The Secretary of State has announced that the Commission's inspection and research activities would cease. In general, local government and others outside of central Government are well-placed to decide when and where research should

be undertaken. In addition, the National Audit Office, following confirmation of its existing powers, will be able, when reporting to Parliament on the activities of central Government departments, to examine the impact of policies administered by local bodies. As well as contributing to parliamentary accountability, this will provide useful insights for local communities by drawing out examples of what works successfully in different circumstances and how barriers to good value for money are being overcome.

- 1.29. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process. They could do this, in part, by drawing upon the work of local auditors.
- 1.30. Other functions, such as grant certification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Accounts returns will continue in some form, but are not considered in detail here. These issues will be covered in the forthcoming draft bill and accompanying consultation.
- 1.31. The Audit Commission appoints auditors to all local public bodies in England. It appoints its own auditors from the in-house practice to 70 per cent of local public bodies, with the remaining 30 per cent of auditors employed by accountancy firms under contract to the Commission. We are considering a range of options for transferring the Commission's in-house audit practice into the private sector. We expect that an announcement on our preferred option for privatisation of the Commission's audit work will be made ahead of publication of a draft audit bill.

Timing and how to get involved

- 1.32. This initial consultation will run for 12 weeks with responses invited by 30 June. Following this period, we will consider the responses we receive and will publish a summary and a Government response.
- 1.33. We then propose to publish draft legislation on the proposals for a new local audit framework which will be subject to pre-legislative scrutiny by Parliament and other interested parties. As part of this process, we will consult again on our proposals, and will publish a consultation stage impact assessment. Following pre-legislative scrutiny, we will prepare for final legislation to be introduced at the earliest opportunity.

Costs

- 1.34. We are developing an impact assessment which will be published alongside the draft Bill. We would therefore be interested in your views on the costs and benefits of the proposals and options set out in this consultation. This evidence will inform the draft bill proposals and help refine the impact assessment.

Who are we consulting?

1.35. We would welcome comments from organisations affected by the change to the audit of local public bodies, and any other bodies or individuals. This document is available on the Department for Communities and Local Government website (www.communities.gov.uk) and we will be drawing it to the attention of all public bodies currently audited by the Audit Commission, to professional bodies and those involved in regulating audit in England. It is open to all to make representations on the proposed new system of local audit and all submissions will be carefully considered.

How to respond

1.36. Your response must be received by 30 June 2011 to:

foia@communities.gsi.gov.uk

Or to:

Luke Scofield
The Department for Communities and Local Government
Zone 3/G6
Eland House
Bressenden Place
London SW1E 5DU

1.37. Please use the title 'Response to future of local audit consultation'.

1.38. It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

Publication of responses – confidentiality and data protection

1.39. Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.40. If you want any information you provide to be treated as confidential you should be aware that under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

1.41. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer

generated by your IT system will not, of itself, be regarded as binding on the Department.

- 1.42. The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Section 2

2. Regulation of local public audit

2.1. Audit systems in the UK for both the public and private sector follow the International Standards on Auditing. These include the following common elements of regulation:

- **standards** – setting out what comprises the audit and the quality standards that apply
- **registration** – determining who can audit and ensuring that auditors have the necessary skills, expertise and qualifications in order that there can be confidence in the auditors' work
- **monitoring and enforcement** – ensuring that standards are met and that appropriate action is taken in the case of failure

2.2. The Government believes that having a specific regulator for the local government and the local health sectors in England - less than 10% of the audit market – risks duplication. We therefore consider that, to the extent possible, there should be a consistent regulatory regime for audit, covering the private sector and the local government and local health sectors. This local public audit regime should be focused on local accountability, in the way that the commercial sector is tailored to accountability to shareholders.

Standards and codes of practice

CURRENT SYSTEM

2.3. Under the current system the Audit Commission sets audit standards through Codes of audit practice for the local government and health sectors, which are approved by Parliament. These Codes build on the ethical, auditing and other standards issued by the Auditing Practices Board and are therefore broadly consistent with audit standards applied in other sectors.

2.4. However, the Commission's Codes contain additional standards to reflect the principles of public audit and its wider scope, particularly in terms of regularity and propriety and value for money. They specify the approach to audit for areas not already covered by professional audit standards (such as the 'value for money' conclusion). The Commission also publishes guidance and statements of responsibilities of auditors and audited bodies.

OTHER SECTORS

2.5. Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council), which sets standards and issues guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors. The Auditing Practices Board is also responsible for setting ethical standards for auditors in the private and public sectors.

The Audit Commission's Codes of audit practice

The Commission has a statutory duty to prepare, keep under review and publish statutory Codes of audit practice. There are currently two Codes: one for local government bodies and one for health bodies. The Codes, which are approved by Parliament and must be reviewed at least every five years, set out best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The latest versions of the Codes of practice were published in 2010.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime. Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives
- outlines auditors' responsibilities regarding the audit of financial statements and use of resources and
- sets out the range of outputs through which the results of audit are reported

OUR PROPOSALS

2.6. Under our proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. We have considered which body would be best placed to produce the audit Codes of practice and supporting guidance. While this is a role that could possibly be undertaken by the Financial Reporting Council or the profession, we believe that the National Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes, which would continue to be approved by Parliament. The National Audit Office would also produce any supporting guidance.

Q3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Registration of auditors

CURRENT SYSTEM

2.7. The Audit Commission Act 1998 stipulates that for an individual or a firm to be appointed as an auditor, the person/s conducting the audit must be a member of one of the specified professional bodies and has such qualifications as may be approved by the Secretary of State (none have been so approved). The Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.

OTHER SECTORS

- 2.8. As part of the statutory framework for the audit of companies under the Companies Act 2006, the Professional Oversight Board (part of the Financial Reporting Council), essentially acts as the main regulator, with statutory powers delegated to it by Government for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors or offering an audit qualification – recognised qualifying body and recognised supervisory body e.g. Institute of Chartered Accountants in England and Wales.
- 2.9. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work. A list of recognised supervisory bodies and recognised qualifying bodies for the purposes of the Companies Act is at annex C. The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies.
- 2.10. People with responsibility for company audit work at the firm must also hold a recognised qualification, awarded by a recognised qualifying body.
- 2.11. Looking elsewhere, in Finland, auditors who are eligible to audit municipal authorities are included in a register of eligible auditors maintained by the Finnish Board of Chartered Public Finance Auditing. In Italy, auditors who can carry out local public audit are included on a register of auditors managed by the Ministry of Justice.

OUR PROPOSALS

- 2.12. We propose that, as under the Companies Act 2006 (“the Companies Act”), an overall regulator would have responsibility for authorising professional accountancy bodies to act as recognised supervisory bodies for local public audit. Any such body would need to comply with the statutory requirements set out in the proposed primary legislation. It would have the roles of registration, monitoring, and discipline in relation to local public audit.
- 2.13. The Financial Reporting Council is the regulator for Companies Act audit and we propose that it takes on a similar role for the local public audit regulatory regime in England, provided that it can assure the Government that it has both the resources and the expertise to undertake the role, and wishes to do so. It is likely that setting up a separate regulator for local public audit would lead to duplication of work as entirely new systems and procedures would need to be developed.
- 2.14. Recognised supervisory bodies for local public audit could include supervisory bodies recognised under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 2.15. A recognised supervisory body for local public audit could have rules and practices covering:

- the eligibility of firms to be appointed as local public auditors and
- the qualifications, experience and other criteria individuals must reach before being permitted to lead a local public audit engagement and/or sign off an audit report

2.16. We propose to set out, in primary legislation, certain high level criteria that specify that the auditor must be:

- a member of a recognised supervisory body and
- eligible for appointment under the rules of that body

2.17. The legislation will include provisions enabling the supervisory body to develop appropriate detailed rules and practices on other criteria.

2.18. The eligibility criteria will be based on those for the audit of companies as we would like to ensure enough flexibility in the criteria to enable new firms to enter the local public audit market. However, there will need to be additional criteria to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body.

2.19. We propose that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.

Q4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Monitoring and enforcement

CURRENT SYSTEM

2.20. The Audit Commission currently monitors the quality of auditors' performance through its annual quality review programme. The Audit Inspection Unit of the Financial Reporting Council reviews the quality of the financial statements audits carried out by the Commission's own audit practice and by private firms on behalf of the Commission.

OTHER SECTORS

2.21. Under the Companies Act, the recognised supervisory bodies are responsible for monitoring the quality of the statutory audits undertaken by their members and for disciplining their members where this is appropriate.

2.22. Some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as "public interest entities". In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Disciplinary Board has a role in investigating significant public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.

OUR PROPOSALS

2.23. We propose that recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members, as they do in the private sector. This work would fall under the monitoring units of these bodies, and would include:

- reviews of individual audit engagements
- reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits
- reporting on the quality of audit to the registration body

2.24. The recognised supervisory bodies for local public audit would investigate complaints or disciplinary cases, as well as issues identified during their monitoring process. They would also be able to stop a firm being eligible for appointment as a statutory local public auditor and remove them from the register of eligible local public auditors.

2.25. We are considering whether the overall regulator (i.e. the body that authorises the recognised supervisory bodies) should have a role in assuring the quality, and undertaking independent investigation of the audit of local public bodies that might be considered analogous to public interest entities for the public sector. The overall regulator would have powers to investigate and discipline in these cases. The process undertaken would be similar to that above, but would provide an additional level of assurance in respect of those bodies.

However, the costs that would fall on the Financial Reporting Council from undertaking this role would be passed on to the audit firms and therefore could be reflected in fees.

Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Q9: There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Section 3

3. Commissioning local public audit services

- 3.1. The Government believes that a localist approach, without an independent central body having a role in appointing an auditor, is an important element of driving accountability to local people rather than to central government. However, maintaining the independence of the auditor in the new system is central to the principles of public audit. Our proposals therefore need to include measures to safeguard the independence of the auditor.

Duty to appoint an auditor

CURRENT SYSTEM

- 3.2. Under the current system, all auditors of local public bodies included in Schedule 2 of the Audit Commission Act are appointed by the Audit Commission. Before making appointments of auditors to local government bodies, the Commission has a statutory duty to consult the body. The Commission has voluntarily extended this practice to health bodies.

OTHER SECTORS

- 3.3. Commissioning takes different forms in different sectors. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, although this will be based on a recommendation from directors and input from an audit committee.
- 3.4. Looking elsewhere, it is clear that there are different systems for commissioning audit services. However, in the USA local authorities procure their own auditors: an audit committee often appoints 'internal auditors' for their local authority, who then procure the external auditor.

OUR PROPOSALS

- 3.5. We propose that all larger local public bodies (those with income/expenditure over £6.5m) will be under a duty to appoint an auditor. The auditor would need to be on the register of local public statutory auditors, which should help to ensure that the quality of auditors is maintained.
- 3.6. It is equally important as it is in other sectors that those to whom audit is directed have influence but that the independence of the auditor remains paramount. Therefore, for larger public bodies, we propose an approach whereby appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input.
- 3.7. We consider that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts, and that local public bodies will want to work together to procure an external auditor. We propose to ensure that legislation provides for both joint procurement and joint audit committees.

Q11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

- 3.8. Lord Sharman, in his report, *Holding to Account: the Review of Audit and Accountability in Central Government*, was clear that, to maintain confidence, auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence includes the way auditors are appointed. We consider that, as part of a new local audit regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 3.9. A possible structure is set out below. However, there could be alternative arrangements, for example:
- a) only the chair and perhaps a minority of members are independent of the local public body
 - b) a chair and a majority of members independent of the local public body, as described below
 - c) as for (b), but with independent selection of the members independent of the local authorities
- 3.10. We are keen to ensure that local public bodies have flexibility in the way that they constitute and run audit committees. But we need to balance this with ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit appointment. We set out below a possible structure and role for the audit committee, some of which may be prescribed in legislation and some of which we would put forward as best practice.

Structure of audit committees

We envisage that in the new system, an audit committee could be structured in the following way:

- The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

Independent members of the committee

When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Role of the Audit Committee

CURRENT SYSTEM

3.11. As auditors are currently appointed by the Audit Commission there is no role for an audit committee in the appointment of auditors, although the Audit Commission always consults local public bodies before it confirms an audit appointment. However, some local public bodies do have Audit Committees (some of which are independent) with roles in relation to both internal and external audit.

3.12. Health bodies currently have their own form of audit committees following the Financial Reporting Council best practice guidance, comprising of independently appointed non-executive directors governed by their own rules and requirements.

OTHER SECTORS

3.13. The Financial Reporting Council currently produces guidance for the establishment of audit committees for companies, stating that they should be made up of at least three, or in the case of smaller companies two, independent non-executive directors.

3.14. The main role and responsibilities of a company's audit committee are set out in written terms of reference and can include a number of roles, including:

- providing advice to the board in relation to the appointment of external auditors
- approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process
- developing and implementing policy on the engagement of the external auditor to supply non-audit services

3.15. Looking elsewhere, audit committees are statutory bodies in each municipality in Finland. Their remit includes preparing the choice and appointment of external auditors. In Canada, the local authority's audit committee also commissions audit services.

OUR PROPOSALS

3.16. It is likely that we would want to specify in legislation some responsibilities that the audit committee should have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. However, we would not wish to limit the scope of an audit committee so that a local body had no flexibility in designing its role.

3.17. The expanded role of the audit committee would include the provision of advice and guidance to the full council or equivalent (the audit committee may wish to have regard to advice from the section 151 officer) on appropriate criteria for engaging an auditor and advice as to how these criteria could be weighted. The audit committee would be given copies of the bids to evaluate in order that they

may advise the full council or equivalent on the selection process and may, if they wish, indicate which auditor, in their view, presents the best choice.

- 3.18. The full council or equivalent would need to have regard to the advice of the audit committee but would not need to follow its advice. The full council or equivalent would be responsible for selecting an auditor and engaging that auditor on a contractual basis.
- 3.19. Advice provided by the audit committee to the full council or equivalent would be published, although consideration will need to be given to the treatment of commercially confidential material.
- 3.20. If the full council or equivalent did not follow the advice of the audit committee, then it would need to publish on its website a statement from the audit committee explaining its advice and a statement from the full council or equivalent setting out the reasons why the council or equivalent has taken a different position.

Option 1

- 3.21. We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.
- 3.22. It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and the audited body.
- 3.23. This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.

Option 2

- 3.24. We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor
 - overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving

- reporting annually to the full council on its activities for the previous year

3.25. This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body.

Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Involvement of the public in the appointment of an auditor

CURRENT SYSTEM

3.26. There is no involvement of the public in the appointment of auditors by the Audit Commission to audited bodies.

OUR PROPOSALS

3.27. We envisage that the appointment of an auditor by the local public body should be as transparent as possible so that local people are able to hold their local public bodies to account for the appointment.

Pre-appointment

3.28. The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.

Post - appointment

3.29. The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.

Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?

Applicability to other sectors

3.30. The policy of audit committees acting as a safeguard to independent appointment is applicable to all larger local public bodies covered by this framework. The approach may differ depending on the constitution and governance arrangements of those bodies.

3.31. For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.

Q20: How can this process be adapted for bodies without elected members?

Failure to appoint an auditor

CURRENT SYSTEM

3.32. As the Audit Commission is responsible for appointing the auditors for all audited bodies specified in the Audit Commission Act 1998, the situation where an audited body fails to appoint an auditor does not arise.

OTHER SECTORS

3.33. The Companies Act 2006 provides a default power for the Secretary of State, so that if a private company fails to appoint an auditor or auditors, the Secretary of State may appoint one or more persons to fill the vacancy. If the company fails to make the necessary appointment, the company is required to give notice to the Secretary of State that his power has become exercisable and if the

company fails to give this notice then the company has committed an offence and can be liable for a fine.

OUR PROPOSALS

3.34. The audited body would be under a duty to appoint an auditor. However, there could be some instances under the new system where a body does not fulfil this duty.

Option 1

3.35. In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.

Option 2

3.36. Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

Q21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

3.37. It would clearly be against our design principles for the new local audit framework for the Secretary of State to make the auditor appointment for local public bodies. However, some form of assurance will be required that local public bodies have fulfilled their duty to appoint an auditor.

Q22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

3.38. Given that we envisage that the Recognised Supervisory Bodies will hold the register of eligible local public auditors there is an argument that they should be notified if a local public body has appointed or failed to appoint an auditor. However, this could involve a significant cost.

3.39. As the Secretary of State would be able to direct the local public body to appoint an auditor, or could be provided with the power to make the auditor appointment where a local public body does not fulfil its duty to appoint an auditor, an alternative option would be for the local public body to notify the appropriate government department, or a body that the government department specifies, of the auditor appointment. The cost of doing this could be met by the appropriate department, and would provide an effective route for the Secretary of State to exercise his powers to direct the local public body to appoint an auditor, or to make the auditor appointment where the body did not fulfil its duty to appoint an auditor.

Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Rotation of audit firms and audit staff

CURRENT SYSTEM

3.40. The Auditing Practices Board's ethical standards, which apply to the audit of both private and public entities, require an audit firm to establish policies and procedures to monitor the length of time that audit engagement partners and other key staff serve as members of the engagement team for each audit. These procedures are in place to help ensure the independence and objectivity of auditors.

3.41. The Audit Commission appoints audit firms or its own staff for an initial period of five years. The audit engagement partner can then be appointed for an additional period of up to two years in accordance with the Auditing Practices Board's Ethical Standards (i.e. a maximum of seven years, provided there are no threats to the auditor's independence). The audit manager (the second in command to the audit engagement partner) can be appointed for a maximum of ten years. After this period individuals should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

OTHER SYSTEMS

3.42. In the case of listed companies, the audit firm must have policies and procedures so that:

- no-one shall act as audit engagement partner for more than seven years and
- anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed

3.43. The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.

OUR PROPOSALS

3.44. We envisage that the new audit framework would be in line with the current ethical standards regarding the rotation of staff within the audit firm.

3.45. The audited body's audit committee would have a role in monitoring the independence and objectivity of the body's external auditor.

- 3.46. In relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition.
- 3.47. To preserve independence, we propose that the audited body would need to procure a different audit firm at the end of the second five year period. This will help to ensure that in carrying out their responsibilities auditors are not influenced by their desire to secure re-appointment.

Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Resignation or removal of an auditor

CURRENT SYSTEM

- 3.48. In the current situation there is not a direct contractual relationship between the auditor and the audited body - the relationship is with the Audit Commission. It is therefore not possible for the audited body to remove the auditor and the auditor does not need to resign because of issues arising with the audit.
- 3.49. In the event that there was a breakdown in the relationship between the auditor and audited body the Audit Commission can consider rotating suppliers.
- 3.50. The audit engagement partner or audit team may change during the appointment and the Audit Commission can and does rotate between firms and its in-house practice undertaking the audit, including if the audited body requests it.

OTHER SECTORS

Resignation

- 3.51. In the companies sector, if an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office which will usually set out the circumstances connected with his ceasing to hold office. If the circumstances are set out in the statement (in the case of a quoted company), the company must send a copy of the statement to all members of the company unless it makes a successful application to the court to stop this.
- 3.52. If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect but the company does not have to circulate this statement to its members.
- 3.53. When an external auditor resigns, the audit committee of the company will investigate the issues giving rise to such resignation and consider whether any action is required.

Removal

- 3.54. The members of a company may remove an auditor from office at any time during their term of office. They, or the directors, must give 28 days notice of their intention to put to a general meeting a resolution to remove the auditor. The company must send a copy of the notice to the auditor, who then sends it to the company's members. The auditor may speak at the meeting where the resolution is to be considered. Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

OUR PROPOSALS

- 3.55. We envisage that a body might wish to remove its auditor, or an auditor might wish to resign, only in exceptional circumstances, for example, an auditor being in breach of the ethical standards, or a complete breakdown in the relationship between the auditor and audited body.
- 3.56. However, we recognise the importance of having stringent safeguards in place for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.

Resignation

- 3.57. We envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement

would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body.

3.58. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.

Removal

3.59. Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.

3.60. The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body.

3.61. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.

3.62. A right of access to the previous auditor's audit working papers (from the previous year and/or current) should be provided to incoming auditors in cases of resignation or removal or any other instances where the audit firm changes. This right should extend to all aspects of the previous auditor's responsibilities and not just to work on the audit of the financial statements.

Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Auditor liability

3.63. In the private sector, auditors are concerned about the consequences of the risks of litigation, as a result of actual or perceived failing by auditors. These concerns have been fuelled by legal judgments about the extent of auditors' duty of care to third parties, such as potential investors and the banks. They have increasingly caused auditors to caveat their audit opinions by explicitly limiting their duty of care and by seeking to limit their liability. Case law has established that the duty of care of auditors appointed by the Commission is to the audited body itself and not to third parties. Public authorities can sue their auditor for breach of duty.

CURRENT SYSTEM

3.64. There are particular issues in the public sector where auditors may exercise special powers. The Audit Commission currently indemnifies auditors for the costs they incur where they are engaged in litigation arising from the exercise of such powers. This ensures that auditors are able to exercise their functions with the certainty that their costs will be met.

OTHER SECTORS

3.65. In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:

- does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct
- allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act

OUR PROPOSALS

3.66. In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Section 4

4. Scope of audit and the work of auditors

4.1. In this chapter, we look at the scope of the audit and the options for the elements of local public bodies' finance and the arrangements that auditors should assess. The duty for the auditor to issue a report in the public interest is also considered. This section asks whether auditors should be able to carry out additional, non-audit, work for the audited body, and considers the various safeguards that could be introduced to ensure that auditor independence is not compromised.

Scope of local public audit

4.2. The starting point is the principles of public audit, in particular the wide scope of the audit covering the audit of financial statements, regularity and propriety and value for money.

CURRENT SYSTEM

4.3. Public sector accounting in the UK has recently moved to adopt International Financial Reporting Standards adapted as necessary for the public sector (for local government audits from 2010-11).

4.4. Currently, the auditor of larger local public bodies is required to:

- give an opinion on whether the accounting statements give a true and fair view of the audited body's financial position and of its income and expenditure
- provide a conclusion as to whether the body has proper arrangements for securing value for money, having regard to specified criteria (such as financial resilience and to regularity and propriety) and in accordance with guidance issued by the Commission
- review and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement and the remuneration report and
- (for local government) review and report on the Whole of Government Accounts return

4.5. Smaller local public bodies are currently subject to a limited assurance regime. We believe that it is important for smaller bodies to continue to be dealt with proportionately under the new framework and discuss this in more detail at Section 5.

OTHER SECTORS

Companies

4.6. The scope of audit for companies is based around the financial statements produced by the company and a report that the directors are required to produce which must describe the company's principal activities, a review of the business and an indication of future developments.

4.7. Statutory auditors of companies include in their report, statements as to whether, in their opinion:

- the accounts have been prepared in accordance with the Companies Act 2006
- the accounts give a “true and fair “ view of the company’s financial statements
- the director’s report is consistent with the accounts
- the remuneration report is properly prepared

Charities

4.8. Any charity which has income above the audit threshold in the financial year must have an audit of its financial statements undertaken by a registered auditor. This is in line with the treatment of companies.

4.9. The Charities Act 1993 also requires all registered charities to prepare a Trustees’ Annual Report. The length of the report and the amount of detail included in it can be in proportion to the charity’s size so for small charities it can be a very simple report.

Central government

4.10. The Comptroller and Auditor General, with the support of the National Audit Office, is responsible for auditing the financial statements of all central Government departments, executive agencies and a wide range of other public sector bodies.

4.11. When certifying the accounts of central government departments, the Comptroller and Auditor General states whether, in his opinion:

- the financial statements give a “true and fair” view of the financial position of the body
- the financial statements have been properly prepared in accordance with underpinning legislation
- in all material respects the transactions recorded in the financial statements are in accordance with Parliamentary or other authority (regularity)
- information given in the Management Commentary/Annual Report is consistent with the financial statements
- the audited part of the Remuneration Report has been properly prepared in accordance with relevant guidance

4.12. The Comptroller and Auditor General also has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

OUR PROPOSALS

4.13. When looking at the future scope of audit for local public bodies we have considered whether we should move to a more transparent model, such as that followed by companies and charities which must produce a director or trustee’s report. Central Government departments are also required to prepare an Annual Report along similar lines. However, we recognise that public money

must be accounted for in a certain way, including assuring regularity and propriety and with the necessary focus on value for money. With this in mind, for larger public bodies we have identified the following three options to deliver effective audit that conforms to the principles of public audit.

Option 1

4.14. The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure and
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.15. This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

Option 2

4.16. As under the current system, the auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and
- provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.17. This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

Option 3

4.18. New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime

- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

4.19. We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.

4.20. We believe that, compared to option 1 and 2, option 3 could lead to greater transparency for local citizens, and would help deliver the wide scope of public audit. It would also require a separate conclusion on regularity and propriety and financial resilience, rather than having regard to these aspects within a conclusion on value for money (as in option 2). However, the volume of work undertaken by the auditor would be significantly greater than for option 1. It is also possible that auditors would have difficulties in reaching a robust conclusion on value for money, regularity and propriety. We expect that reaching a conclusion on the achievement for value for money would involve more work for auditors, particularly in the case of complex organisations such as principal local authorities.

Option 4

4.21. Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.

4.22. Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

4.23. The auditor would be required to:

- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

4.24. The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.

4.25. Another possible benefit of this option, is that it brings the format of audit for local public bodies (financial statements and reviewing a report) more in-line with that of other sectors.

Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?

Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

Public interest reporting

CURRENT SYSTEM

4.26. Under Section 8 of the Audit Commission Act 1998, the auditor is currently required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public. The auditor can also make written recommendations to the audited body as part of this report. The audited body has a corresponding duty to consider and respond to these reports and any recommendations that might be made. The costs of the report fall on the audited body.

4.27. Appointed auditors have issued 131 public interest reports since 2002, of which 13 have related to principal local authorities, 85 to parish councils, 30 to health bodies and one each to a passenger transport authority (now an integrated transport authority), a passenger transport executive, and an internal drainage board.

4.28. In addition to the auditor's duties to report in the public interest, they also have the power to make a recommendation requiring a public response and can issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

OTHER SECTORS

- 4.29. Although public interest reporting is a consequence of the principles of public audit, there are some similarities with processes in place in other sectors.
- 4.30. The auditor of a regulated entity generally has special reporting responsibilities in addition to the responsibility to report on financial statements. One of these special reporting responsibilities is a statutory duty to report certain information, relevant to the regulators' functions that come to the auditor's attention in the course of the audit work. This form of report is derivative in nature and is initiated by the auditor on discovery of a reportable matter.

OUR PROPOSALS

- 4.31. We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency.
- 4.32. We envisage that the current publication requirements for public interest reports would be retained, as would the audited body's responsibilities to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision.
- 4.33. The costs of public interest reports will fall on the audited body. It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.
- 4.34. We also propose to retain the power of an auditor to make a recommendation requiring a public response and to issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Provision of non-audit services

CURRENT SYSTEM

- 4.35. The auditor may be best placed to carry out certain types of additional work for the audited body. Therefore, the Audit Commission allows additional work to be undertaken without prior approval from the Commission, if the auditor is satisfied that:

- performance of such work will not compromise, nor be reasonably perceived by the public to compromise, his independence and
- the value of the work in total, in any audit year, does not exceed a de minimis amount (set by the Audit Commission as the higher of £30,000 or 20 per cent of the total audit fee, excluding fees for the certification of grant claims and returns)

4.36. Auditors are required to establish procedures to identify and address any potential breaches of these requirements.

4.37. All such work must be:

- agreed in advance with the audited body, on the understanding that such work is discretionary and is not required to meet the auditors' statutory responsibilities and
- billed separately from the audit work

The Commission requires applications for approval to carry out work exceeding the de minimis threshold at least ten days before the start of the work.

OTHER SECTORS

4.38. In other sectors, such as the companies sector, statutory auditors are allowed to provide other non-audit services to the company.

4.39. However, the audit committee of the company has a role in considering all relationships between the company and the audit firm, including the provision of non-audit services and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

4.40. The audit committee should also develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

OUR PROPOSALS

4.41. We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition.

4.42. We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.

Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Public interest disclosure

CURRENT SYSTEM

4.43. Under the current framework, the Audit Commission and appointed auditors are prescribed persons under the Public Interest Disclosure Act 1998 for disclosures relating to “the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies”. The Audit Commission and appointed auditors consider information they receive as a result of a disclosure and determine what action, if any, to take in the context of their existing statutory and professional powers and duties.

4.44. We recognise the importance of the roles undertaken by prescribed persons including the Audit Commission and appointed auditors. It provides reassurance to workers that it is safe and acceptable for them to raise concerns internally and sets out the circumstances where the disclosure of the malpractice outside of the organisation is in the public interest and should be protected.

The Audit Commission’s role in public interest disclosure

The Audit Commission is a ‘prescribed person’ as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:

- receiving the facts of a disclosure
- supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment;
- acknowledging receipt of the disclosure and stating in general terms what the procedures are
- forwarding information to the auditor and inform the discloser

The current role of the appointed auditor

The auditor’s role includes:

- evaluating the information provided by the Commission
- acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision
- undertaking appropriate audit work in response to the disclosure
- reporting the outcome of any work to the discloser and the Commission

OTHER SECTORS

4.45. The Financial Reporting Council's guidance for the audit committees of companies sets out a role for the audit committee in reviewing arrangements under which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

OUR PROPOSALS

4.46. We believe it is important that a similar system operates in the new framework. We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may choose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.

4.47. We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.

Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Transparency

CURRENT SYSTEM

4.48. Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections, if the audited body is not a health body, in respect of unlawful items of account or matters on which the auditor can make a report in the public interest. The auditor may also apply for a declaration to the Court. Objectors have the right to appeal to the Courts about an auditor's decision.

4.49. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.

4.50. The right to object to the accounts was first introduced more than 150 years ago, at a time when the auditor was the only individual to whom an elector could raise issues of concern.

OUR PROPOSALS

- 4.51. The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public.
- 4.52. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.
- 4.53. Under the new local audit framework, members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts.
- 4.54. While the right to make formal objections would be removed, the local public body would still be required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision.
- 4.55. We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.
- 4.56. We also envisage that local public bodies should be required to publish their accounts and the auditor's report on the website.
- 4.57. We consider that these proposals would provide a balance between transparency and disproportionate cost.

Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?

Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

Section 5

5. Arrangements for smaller bodies

Current system

The limited assurance audit regime

The limited assurance audit regime was first introduced in 2001-02 for local councils (parish meetings and parish and town councils) where neither income nor expenditure exceeded £500,000. This threshold was increased to £1m in 2006.

The regime is designed specifically to minimise the audit requirement upon, and cost to, these small bodies. The audits are based on the submission by the body to the auditor of an annual return that is subject to a desk review. The audit report provides a limited level of assurance to the body commensurate with the amount of work undertaken.

The basic audit approach is common to all smaller bodies. However, for those bodies with annual income or expenditure over £200,000, auditors are required to carry out additional testing as part of their audit approach to reflect the higher risk to public funds; this is referred to as the intermediate audit. In addition, on a random sample basis, 5 per cent of those bodies operating below the £200,000 threshold will also be selected annually for intermediate audit at no extra cost.

- 5.1. Under the current legislation, the statutory audit requirements for smaller bodies are the same as those for larger bodies. However, since 2002, the Audit Commission has ensured that these are met proportionately through a separate “limited assurance” framework for bodies with an income or expenditure less than £1m. The smallest bodies currently do not pay any fees for their annual audit.
- 5.2. To bring this into line with the framework under the Companies Act the £1m threshold for local public bodies is being increased to not more than £6.5m.

OTHER SECTORS

- 5.3. The companies and charities sector, both have arrangements in place to ensure a more proportionate level of audit for smaller bodies.

Charities

- 5.4. The Charities Act 1993 put in place a system by which some small charities could be subject to independent examination rather than a full audit.

Independent Examination v Audit (Charity Sector)

The two main differences between independent examination and audit relate to:

- Who can act
- The nature of the report.

	Who can act	The nature of the Report
Independent Examination	An independent person who is reasonably believed by the body to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is necessarily required but the person must have a good understanding of accounts.	Provides a "negative assurance" on the accounts. The independent examiner declares that no evidence was found of lack of accounting records, of accounts failing to comply with the records, nor of other matters that need to be disclosed.
Audit	Must be a registered auditor	An audit report will need to provide an opinion on the financial statements

5.5. The level of independent examination is dictated by the level of gross income of the charity.

Level of Gross Income	External scrutiny	Annual Report
Not exceeding £10,000	There is no requirement to have the accounts independently examined or audited	The trustees must prepare an annual report but it may be simplified.
Over £10,000 but not exceeding £100,000	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor	An Annual Report must be prepared but it may be simplified
Over £100,000 but not exceeding £500,000 (total assets not exceeding £2.8m)	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the 2006 Act.	An Annual Report must be prepared but it may be simplified
Exceeds £500,000 (or a charity whose gross assets exceed £2.8m and gross income exceeds £100,000)	A statutory audit is required (subject to specified exceptions) and the accounts must be audited by a registered auditor.	A full Annual Report must be prepared

- 5.6. Company charities used to be dealt with under the Companies Act 2006 system. However, from the financial year beginning on or after 1 April 2008 all charities (including company charities) are subject to the Charities Act 1993 system. The purpose of this change was to ensure that the scrutiny of small company charities was consistent with charity law requirements and in particular allowed for the independent examination of eligible small company charities.
- 5.7. Company charities which meet the Companies Act definition of a small company may elect for exemption from audit under the Companies Act and opt to have their accounts audited or independently examined under the Charities Act 1993.
- 5.8. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also result in new requirements for the audit of small groups when their accounts are prepared by parent company charities.

Companies

- 5.9. The Companies Act 2006 sets out the thresholds which must be met for a company to be deemed a small company. These are, at least two of the following three conditions:
- annual income or expenditure (gross income for charities) not exceeding - £6,500,000
 - balance sheet total not exceeding - £3,260,000
 - average numbers of employers not exceeding – 50
- 5.10. These thresholds are subject to periodic amendment.
- 5.11. There is exemption from audit for **certain** small companies if they are eligible and wish to take advantage of it. To qualify for audit exemption, a company must:
- qualify as small (per paragraph 5.9) **and**
 - have an income or expenditure of not more than £6.5m **and**
 - have a balance sheet total of not more than £3.26m
- 5.12. Even if a small company meets these criteria, it must still have its accounts audited if this is demanded by a member or members holding at least 10 per cent of the nominal value of issued share capital or holding 10 per cent of any class of shares. Public companies are not eligible for exemption.

OUR PROPOSALS

- 5.13. Both the limited assurance and independent examination regimes outlined above provide a simpler, more proportionate, form of external scrutiny than a full audit, but still provide assurance that the accounts of the bodies involved have been reviewed by an independent person.

- 5.14. We aim to bring arrangements for smaller local public bodies into line with other sectors. We are therefore considering a process under which the income and expenditure of a body determines what 'level' of audit or scrutiny is required; the greater the income/expenditure, the more scrutiny is required.
- 5.15. We propose that the 1,200 or so bodies with income or expenditure less than £1,000 would not be subject to an external examination or audit, as the risk to public funds is low and any external examination or audit fees would be disproportionate to their income or expenditure. These bodies do not currently pay a fee for an audit or examination, and requiring them to now do so would clearly increase their costs.
- 5.16. Bodies with an income or expenditure between £1,000 and the upper threshold of £6.5m would be subject to an independent examination rather than a full audit.
- 5.17. Examiners of small bodies should act for a maximum period of 10 years (which is in line with the current practices of the Audit Commission).
- 5.18. We propose that the independent examination of smaller bodies should be similar to that followed in the charities sector. As we have set out above, the charities sector provides for a reduced audit for bodies with income or expenditure below £500,000. However, the Audit Commission has provided limited assurance to all bodies with income or expenditure under £1m recently raised to not more than £6.5m. We are keen to ensure that smaller bodies are not disproportionately affected by our proposals. Therefore we propose a staged model such as the model followed in the charities sector, where the level of examination and the qualifications that the independent examiner must have are based on the income or expenditure of the body. However, this staged model would reflect the current £6.5m threshold used by the Audit Commission for their limited assurance regime. The independent examination of smaller bodies might therefore look as follows:

	Number	% small bodies market	Income/Expenditure	Scrutiny
Level 1	1,200	12%	Public bodies with expenditure less than £1,000	<ul style="list-style-type: none"> Existing governance and accounting arrangements Annual accounts published Positive confirmation that annual accounts have been produced and published via the precept request (or equivalent) No external audit/scrutiny
Level 2	Approx 6,400 bodies	64%	Public bodies with expenditure between £1,000 and £50,000	<p>As level 1, but</p> <ul style="list-style-type: none"> (Under option 1 below) the county or unitary council to appoint an independent examiner (no specific qualifications needed, but County or unitary council should assure itself that the relevant person has the requisite experience and expertise) to assess its accounts. In practice the Section 151 officer or full council, having regard to advice provided by the audit committee, would make this appointment. The independent examiner might be an officer of the county or unitary council. The body must also publish the details of the examiner.
Level 3	Approx 1,625 bodies	16%	Public bodies with expenditure between £50,000 and £250,000	<p>As level 2, but:</p> <ul style="list-style-type: none"> Existing internal audit arrangements Independent examiner must hold a professional qualification to assess its accounts.
Level 4	Approx 675 bodies	7%	Public bodies with expenditure between £250,000 and £6.5m	<p>As level 3, but</p> <ul style="list-style-type: none"> Independent examiner must hold a professional qualification and be registered as a public auditor.

Appointing the examiner

OPTION 1

5.19. We consider that the appointment process for the independent examiner should be proportionate. An audit committee could be a significant cost for a smaller body. Instead, where an independent examiner is required, we propose that the county or unitary authority should be responsible for appointing the independent examiner (see table above). If smaller bodies were responsible for appointing their own examiner in the absence of an audit committee there would be a lack of independence in the appointment process. In addition, they may not achieve a good price for this service.

5.20. If the county or unitary authority was responsible for the appointment this would provide a degree of independence to the appointment process for smaller bodies, and they would have the ability to appoint independent examiners for all of the smaller bodies in their areas, providing the opportunity to make savings through economies of scale.

OPTION 2

5.21. The small body would be required to make arrangements for the appointment of the independent examiner, *including* the involvement of an audit committee. This would give the body the freedom to make the necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee. Under this option the scope of the examination would still be as set out in the table above.

Q42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Q43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

Q44: What guidance would be required to enable county/unitary authorities to:

- a.) Appoint independent examiners for the smaller bodies in their areas?
- b.) Outline the annual return requirements for independent examiners?

Who should produce and maintain this guidance?

Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Q47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

Public interest reporting for smaller bodies

5.22. There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.

Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

Objections to accounts of smaller bodies

5.23. For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts.

5.24. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.

Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

Regulatory regime for smaller bodies

5.25. For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit.

5.26. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.

Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Section 6

6. List of consultation questions

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
19. Is this a proportionate approach to public involvement in the selection and work of auditors?
20. How can this process be adapted for bodies without elected members?
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county/unitary authorities to:
- a.) Appoint independent examiners for the smaller bodies in their areas?
 - b.) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Appendix A

Audited bodies' published accounts – current arrangements

The annual accounting statements that audited bodies, other than NHS bodies and probation bodies, are currently required to publish are prescribed in Accounts and Audit Regulations made under section 27 of the Audit Commission Act 1998. A new consolidated set of the regulations has recently been issued. The accounting statements for all the bodies must cover the year ending on 31 March.

The larger bodies (broadly those with annual income or expenditure of more than £6.5m) must produce a “statement of accounts”, based, as from the 2010-11 financial year, on International Financial Reporting Standards as those standards are applied by the *Code of Practice on Local Authority Accounting in the United Kingdom*, published by CIPFA/LASAAC. The statement must also conform to specific requirements set out in the Accounts and Audit Regulations and other legislation. A statement of accounts includes all the elements that would be expected in a comprehensive set of accounts, including:

- movement in reserves statement
- comprehensive income and expenditure account
- balance sheet
- cash flow statement, and
- supporting notes, including a summary of significant accounting policies

Where the body has significant subsidiaries or associates Group Accounts must also be included. The statement of accounts is accompanied by a statement of internal control or annual governance statement, setting out the body's annual assessment of how it is managing and controlling the risks it faces in achieving its aims and legal obligations.

The smaller bodies are given a choice on the form of their annual accounting statements. They can prepare either:

- a statement of accounts on the same basis as a larger body or
- an income and expenditure account and statement of balances or
- where the body's annual income or expenditure is no more than £200,000, a record of receipts and payments

For the second and third options the requirements are specified in an Annual Return that the body is required to present to the auditor and publish. The form of the Annual Return is laid out in *Governance and Accountability for Local Councils, a Practitioners' Guide*, available from the National Association of Local Councils.

The accounting statements for both the larger and smaller bodies must be audited (for smaller bodies the audit is a 'limited assurance' - a simpler, more proportionate, form of external scrutiny than a full audit). The statements, together with the auditor's opinion on them, must then be published, and this should be done by 30 September following the financial year end. The larger bodies are required to publish the statements on their websites, and the smaller bodies by displaying them within their area, though both are free to use other means of publication in addition.

Appendix B

List of bodies to which the Audit Commission appoints auditors in England

The audit bodies which are specified in primary legislation are³:

- A local authority (meaning a county council, district council, London borough council and a parish council).
- A joint authority (which means an authority established by Part 4 of the Local Government Act 1985, includes metropolitan county fire and rescue authorities).
- The Greater London Authority.
- Passenger Transport Executive.
- A functional body (meaning Transport for London, the London Development Agency, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority).
- The London Pensions Fund Authority.
- The London Waste and Recycling Board.
- A parish meeting of a parish not having a separate parish council.
- A committee of a local authority, including a joint committee of two or more such authorities.
- The Council of the Isles of Scilly.
- Any Charter Trustees constituted under section 246 of the Local Government Act 1972.
- A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006.
- A Port Health Authority constituted under section 2 of the Public Health (Control of Disease) Act 1984.
- The Broads Authority.
- A national park authority.
- A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000.
- A police authority established under section 3 of the Police Act 1996.
- A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies.
- An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities).
- A licensing planning committee.
- An internal drainage board.
- A local probation board established under section 4 of the Criminal Justice and Court Services Act.

³ It is proposed through the Police Reform and Social Responsibility Bill that police and crime commissioners and chief constables will be added to schedule 2 of the Audit Commission Act 1998 and thereby become a body for which the Audit Commission will appoint auditors to. In addition, the Health Bill refers to GP Consortia being brought within the Audit Commission Act 1998.

- A probation trust.
- An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009.
- A combined authority established under section 103 of that Act.
- The accounts of the collection fund of the Common Council and the accounts of the City fund.
- The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995.

Appendix C

Recognised supervisory bodies and recognised qualifying bodies in England

In the companies sector, audit firms must be registered with, and subject to supervision by a recognised supervisory body and persons responsible for company audit work at a firm must hold a recognised qualification awarded by a recognised qualifying body.

There are currently five recognised supervisory bodies:

- Association of Authorised Public Accountants
- Association of Chartered Certified Accountants
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

and six recognised qualifying bodies:

- Association of Chartered Certified Accountants
- Association of International Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

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Future of local public audit

Consultation questions	CBC response
<p>1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?</p>	<p>The principles cover the fundamental requirements of an external auditor provision. Key elements, such as, independence and transparency are clearly considered. The proposal does cover these elements. However, it does not cover the relationship between the external auditor, the internal auditor and other assurance providers. Currently arrangements in Local Authority enable various sources to be used to provide assurance to the Audit Committee, the Council and ultimately the public. The proposal does not indicate how the new arrangements would meet the Accounts & Audit Regulations (2011), and other current regulations and codes of best practice, although these may be amended to reflect the new scheme. It also does not indicate how knowledge and best practice would be shared between the 'new localised auditors' and passed on to the auditee to ensure the public sector can continue to compare and contrast their efforts with each other, which is a key element to driving out more value for money.</p>
<p>2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?</p>	<p>Not applicable for this authority.</p>
<p>3. Do you think that the National Audit Office (NAO) would be best placed to produce the Code of audit practice and the supporting guidance?</p>	<p>Yes - the NAO is best placed to produce the Code. However, this will need to be in consultation with other key stakeholders, for example, the Chartered Institute of Public Finance and Accountancy (CIPFA).</p>

<p>4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?</p>	<p>Yes – We agree that the replication of the approval and control process for the auditors would be appropriate.</p>
<p>5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?</p>	<p>This function could be within the remit of the NAO</p>
<p>6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?</p>	<p>This would have to be a policy decision of the NAO in the first instance that is then subject to review and consultation with both the potential providers of audit and the public sector bodies.</p>
<p>7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?</p>	<p>The auditors will require the relevant understanding of the 'local issues' and stakeholders. Therefore for this authority CIPFA would be a key stakeholder and consideration given to the size of the organisation i.e. a second tier authority / Borough Council. Also as mentioned above, the ability to move knowledge and best practice between other authorities would be a requirement. However, controlling market forces and barriers to entry could not be a responsibility of this authority.</p>
<p>8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?</p>	<p>In the interest of protecting the public purse, localism and transparency, and ensuring value for money from the public sector, all public interest entities should receive appropriate audit. However, this should be proportionate to the impact on the local community. Therefore a scaled or risk based assessment should be carried out. This should also ensure that the monitoring of the regulator does not drive up the costs of the provision and thereby defeat the objective of changing the current scheme.</p>
<p>9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional</p>	<p>See answer to question 8 above. Plus, the services delivered should be the key driver, with the focus of providing these services for the best value for money.</p>

	<p>regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?</p>
<p>See 8 and 9 above.</p>	<p>10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?</p>
<p>The proposal indicates means for several authorities to appoint the auditor to maximise the use of economies of scale. However, this authority is also interested in ensuring that the appointed auditor would not be required to audit a shared service more than once. This would enable the authority to drive out further cost savings from shared services.</p>	<p>11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?</p>
<p>The concept of independent members in general is not necessarily appropriate for a local authority whereby the Audit Committee members have been elected by the public and have a fundamental duty to the public. Therefore restricting their role through the introduction of independent Chair and Vice Chair as a minimum could be counter productive. However, independent members could be used to support or enhance the skills base of the Audit Committee. Therefore the skills and experience should be part of the criteria for the selection of independent members.</p>	<p>12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?</p>
<p>The balance would require consideration with current developments in other sectors, for example, consideration of the results of the Walker Report (2009), UK Corporate Governance Code (2010), Financial Reporting Council Guidance on Audit Committees (2008), and other recent assessments of other sectors could inform this process.</p>	<p>13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?</p>

	<p>It is necessary for independent members to have financial experience, particularly relevant public sector finance experience, if they are to be considered for the Chair/Vice Chair as this authority has enabled the Audit Committee to approve the final accounts.</p>
<p>14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?</p>	<p>Yes, there will be difficulty in sourcing independent members, particularly when those who have a significant interest in developing the local authority would most likely look to do this by becoming a Councillor. There is the risk that 'independent' members are found from those that are unsuccessful in an election and have a detrimental impact on the Audit Committee. Remuneration is highly likely to be necessary and will become a problem if this cost counters savings made from the change in the selection of the auditor.</p>
<p>15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?</p>	<p>Not necessarily as the fundamental decision of auditor appointment remains in the full council remit and only takes advice from the Audit Committee.</p>
<p>16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?</p>	<p>See comment at 15 above. However, option (a) in paragraph 3.9 is most likely to be the option giving the locally elected Councillors in this authority the greatest opportunity for influence in the Full Council decision.</p>
<p>17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?</p>	<p>The proposal identifies that the Audit Committee "may wish to have regard to advice from the Section 151 Officer", this should also include the Head of Internal Audit as the other key internal officer with knowledge of audit practices. The greater prescriptive Option 2 would help to ensure the Audit Committees operate in a similar way and the aspects listed</p>

	help ensure other key duties are not discontinued.
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	If the process is not a statutory code there is the risk that the process would be devalued. The NAO should set this Code in line with its remit for audit of public bodies.
19. Is this a proportionate approach to public involvement in the selection and work of auditors?	The approach taken should be in line with procurement policy and tender process best practice.
20. How can this process be adapted for bodies without elected members?	Not applicable for this authority.
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?	The option should be in line with the "comply or explain" principles of the UK. There may well be sound reason for a failure to appoint in the auditor as tendering processes are being suggested. However, this does need the support of penalties for excessive failure to appoint, but should not disable the ability for the authority to make a decision in its local community interest.
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	The duty to inform when appointed and when failed could be used to inform the NAO and help maintain the register of auditors.
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	See 22 above.
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	The firm's term of appointment could be inline with the electoral term's i.e. four year periods. However, limitation of appointment may help in the reduction of barriers of entry with new audit firms
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local	Yes these are sufficient safeguards.

<p>public bodies? If not, what additional safeguards are required?</p> <p>26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?</p> <p>27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?</p> <p>28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?</p> <p>29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?</p> <p>30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?</p> <p>31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?</p>	<p>See 24 above.</p> <p>Yes these are sufficient safeguards.</p> <p>The new framework must ensure the auditors are reasonably accountable otherwise this is in conflict with the public bodies being audited.</p> <p>Option 3 would be the best suited arrangement for this authority.</p> <p>Yes the performance and plans should be set out in an annual report to enable the localism and transparency aspects to be delivered.</p> <p>Yes – this information would give a better indication of the long term situation and provide assurance that the authority does not commit to short term strategies possibly driven by political fluctuations.</p>
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32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	Either term would need defining. However there is a recognised understanding of reasonable assurance. The concept of limited assurance could lead to the development of minimalist auditing and confusion with audit opinions where 'limited' assurance indicates a failing system of control.
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	Sufficient guidance to ensure comparability with other local public bodies, but not so restrictive that it does not allow local context. The NAO in consultation with stakeholders, for example, CIPFA and Local Government Association.
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?	The audit firms are most likely in the best position to comment on what would or would not influence their ability to carry out a public interest report (PIR). However, a route to the NAO for public concerns, perhaps in a similar form to the monitoring of auditor standards, could be used as a means to ensure PIRs are carried out.
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?	Yes – but this should be managed to ensure it does not impact on the firm's independence or objectivity.
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Objectivity, integrity, confidentiality and competency are all key elements of the Auditor supported by his independence. These elements should be safeguarded through the codes.
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	No – the route for disclosure should link to the NAO, not the Audit Committee, in line with comments made regarding PIRs at 34 above.
38. Do you agree that we should modernise the right to object to the accounts? If not, why?	Yes.

<p>39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?</p>	<p>The proposal does recognise the changes brought about by the transparency agenda. However, to comment on its effectiveness at this stage would be premature as the transparency agenda is still relatively new.</p>
<p>40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?</p>	<p>This could enhance the transparency aspects of the Auditor.</p>
<p>41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?</p>	<p>Safeguards would be required to control any extension of Freedom of Information where the response could undermine the relationship between the auditor and the audited body. It could lead to a greater cost through the management of the information disclosed, particularly if addressing such matters as fraud and probity.</p>
<p>42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?</p>	<p>Not applicable for this authority.</p>
<p>43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?</p>	<p>Not applicable for this authority.</p>
<p>44. What guidance would be required to enable county/unitary authorities to:</p>	<p>Not applicable for this authority.</p>
<p>a.) Appoint independent examiners for the smaller bodies in their areas?</p>	
<p>b.) Outline the annual return requirements for independent examiners?</p>	
<p>Who should produce and maintain this guidance?</p>	<p>Not applicable for this authority.</p>

	45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Not applicable for this authority.
	46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?	Not applicable for this authority.
	47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?	Not applicable for this authority.
	48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?	Not applicable for this authority.
	49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?	Not applicable for this authority.
	50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?	Not applicable for this authority.

End.

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Information/Discussion Paper

Audit committee - 22nd June 2011

Commissioning update

This note contains the information to keep Members informed of matters relating to the work of the Committee, but where no decisions from Members are needed

1. Why has this come to audit committee?

- 1.1 At the last meeting of the committee members indicated that as an audit committee they needed to be aware of the governance issues which may emerge from becoming a commissioning council and specifically from individual reviews. Reports have been presented to the last round of overview and scrutiny committees on the updates on each of the individual reviews and a more general report to economy and business improvement overview and scrutiny committee on the proposed review schedule.

2. Summary of the Issue

- 2.1 The commissioning programme is being managed through MSP and Prince2 methodology. There is a programme board which includes cabinet representation (leader and cabinet member corporate services) and this is supported by a cross party member working group which includes the leader and the group leader for the conservative group who act as a sounding board for the process moving forward and specifically the role of members.
- 2.2 The two commissioning reviews for leisure and culture and built environment have project teams which include the lead cabinet member and again a cross party member working group which the cabinet member chairs. These groups enable members to discuss outcomes and help support the project in reviewing the direction of travel for the delivery of those outcomes.
- 2.3 The commissioning programme board has started to explore the different delivery and governance options that are available to the council, and this work is being supported by a senior solicitor from Onelegal. This is work in progress but attached at appendix A are the different options that are available. The individual reviews are then using these models to identify whether there are examples of these in operation either locally or nationally and as the reviews move forward will consider some of the benefits and weaknesses of such arrangements. This work will help to support any decision making and assessment of how the review should then be taken forward and what further work should be undertaken through more formalised option appraisals.

3. Summary of evidence/information

- 3.1 The development of the GO programme has provided useful learning in relation to governance arrangements and we need to ensure that these are fully considered and

built into the other reviews as they progress. Members this evening are receiving an update report from the director of resources on the GO programme and members may wish to consider whether there are issues arising from this review which could usefully be incorporated into other commissioning programmes.

- 3.2 The council is also looking at how the implementation of a shared finance and HR service will be able to support other delivery models. CBH have already signed up to use the GO shared service and governance arrangements will be put in place with CBH and the shared service. The GO programme has also flagged the dependencies to the potential establishment of a council owned joint waste company and the way that the company could access services from the shared service. Work is ongoing with Onelegal to ensure that the commissioning programmes and interdependencies with other shared service/contractual arrangements are considered at an early stage to ensure that appropriate governance arrangements are in place.
 - 3.3 The audit committee will also need to satisfy themselves in future years about how different delivery arrangements will impact on the council's annual governance statement and what it will expect from such organisations. The council's corporate governance group has already started to think about the issues and what it may need to build into any agreements with different providers.
 - 3.4 Any governance framework will be developed prior to the start of any formal contractual agreement and will be reviewed and updated throughout the contract period.
 - 3.5 In commissioning outcomes the council needs to satisfy itself that it has clear processes for measuring the delivery of the outcomes, which are effective but not bureaucratic or costly.. The council already has good working relationships with CBH who in effect are commissioned to manage a range of housing outcomes and we can continue to learn from that client relationship. Different delivery models will require different client monitoring and management arrangements and member participation.
 - 3.6 However what must underpin our commissioning processes is however and whoever is delivering the service there must be a clear focus on customer service, effective quality standards and outcomes which can be measured and used to realise agreed benefits
- 4. Next Steps - possible next steps for the committee to consider eg potential witnesses, further report, site visit etc.**
- 4.1 The leisure and culture review and built environment review are proposing to report back on the strategic direction in the autumn, following update reports to cabinet in July. It would make sense for the audit committee at that stage to be alerted to any issues which may have arisen with regards to governance issues and to consider how they would wish to be kept involved in the reviews from a governance perspective.

Background Papers

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Accountability

Councillor Colin Hay, cabinet member corporate services

Scrutiny Function

Economy and business improvement

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Commissioning - common service delivery models

Sector	Constitutional form	Broad characteristics	Opportunities	Limitations	Finance - implications	Legal/Staff/Procurement requirements	Governance	Could suit:	Decision making requirement
Civil Sector	Co-operatives	A business organisation owned and operated by a group of individuals for their mutual benefit. May also be defined as a business owned and controlled equally by the people who use its services or by the people who work there. Example - Spa Credit Unions, Worker's Co-operatives. Co-operative Directory for the SW - http://www.uk.coopdirectory/rccs_west	A way for people to collectively do it for themselves; members bring. Providing employment for local people; Working with LAs to deliver public services can provide a consistency of demand for services.	Must ensure that entire income stream is not reliant on a single contract (i.e. from the LA); A barrier may be financial and structural along with a general lack of understanding of the social enterprise business model among financiers and commissioners.	Can receive charity exempt status. Filing requirements dependent on chosen structure.		Democratically owned and run, giving members real control over the direction of their enterprise and allowing them to contribute to the success of the business.	An LA wanting to inject innovative approaches and fresh thinking into traditional ways of conducting business in the public sector.	
Civil Sector	Social Enterprise	Social enterprises are businesses with primarily social or environmental objectives. Their surpluses are reinvested in the business or community, rather than being driven by the need to maximise it for shareholders and owners. Example - Lodsworth Larder - http://www.lodsworthlarder.co.uk/ Social Enterprise Coalition - http://www.socialenterprise.org.uk/	A way for people to collectively do it for themselves; They draw the knowledge, skills and expertise that diverse members bring. Providing employment for local people; Working with LAs to deliver public services can provide a consistency of demand for services.	Must ensure that entire income stream is not reliant on a single contract (i.e. from the LA); A barrier may be financial and structural along with a general lack of understanding of the social enterprise business model among financiers and commissioners.	Filing requirements dependent on chosen structure.		Democratically owned and run, giving members real control over the direction of their enterprise and allowing them to contribute to the success of the business.	An LA wanting to inject innovative approaches and fresh thinking into traditional ways of conducting business in the public sector.	
Civil Sector	Charitable Trust	The formal 'trust' format; Assets held by a body of trustees for the benefit of agreed beneficiaries. Example - Cadbury - http://www.wa-cadbury.org.uk/Page.asp?id=35	Can be established by anyone who wishes to dedicate a portion of their assets to charity; Possible to secure significant tax exemptions; Assets are being put to constructive use.	Cannot start legal action, borrow money, enter into contracts in its own name; The officers can be personally liable if the charity is sued or has debts; Provides opportunities to compete for contracts from other LAs/agencies to generate revenue streams.	Charitable status - minimum 80% relief on NINDR and exemption from Corporation Tax, Capital Gains Tax & Stamp Duty. Special VAT exemptions in some circumstances. Gift aid for investors. Annual income/expenditure returns need to be filed with the Charity Commission.		The body's members to take full liability for all contractual or financial responsibilities; Not a separate legal entity: Legally considered to be a charity in and of itself.	An LA rooted in the community, open and transparent in their dealings, highly accountable for their actions, high standards embedded.	
Civil Sector	Community Land Trust (CLT)	A corporate body holding property for the purposes of the community rather than for private profit, and offering the opportunity for members of the local community to become involved in its governance; Its property represents fixed assets to be held in perpetuity for local use; Its profits must be used to benefit the community, other than being paid directly to its members (if a CIC); Its purpose is to facilitate locally-driven long term and affordable development - providing regeneration, conservation, or cultural benefit locally. Example - Land for People - http://www.landforpeople.co.uk CLT Network - http://www.communitylandtrusts.org.uk/home ; CLT Fund - http://www.citfund.org.uk	Can access loan finance, mortgage land assets and hold reserves; Free to extend membership to private and public sector organisations; Can work across domain boundaries; Are likely to support collaborative, cross-agenda approaches to local issues & concerns, and work positively across the public, private and third sector; Their statutory recognition provides confidence to parties; They qualify as bodies that the HCA deal with and therefore associated with the key programmes delivered by CLG; They cannot be sold but are able in principle to assimilate other models and scale up.	In principle the democratic format could discourage the scaling up of activity beyond local areas; If they take charitable status their restriction on the distribution of profit reduces the appeal of collaborations to the private sector; If they take CIC limited by share status, they restrict the fiscal benefits they can receive from Treasury.	Will generally take the form of a CLG or IPS		Its governance is flexible - it can choose to establish as a charity or a CIC and take on additional regulation - and its tax position depends on the legal form it uses; In addition to an asset lock protecting its property, a CLT is required to have a democratic membership.	An LA interested in furthering a policy programme of community asset transfer and participation in decision making and strengthening community influence in political processes; An LA interested in developing a private finance initiative (PFI) whereby the CLT would take ownership of the freehold and lease out the facility to the PFI provider for the duration of the agreement.	
Civil Sector	Company limited by guarantee (CLG)	Companies limited by Guarantee are usually non-profit organisations such as charities, clubs and associations; Emphasis is normally concerned with the provision of a service for the benefit of the public or a specific section of it; Whilst a company limited by guarantee might actively seek to maximise its revenues through donations, subscriptions or sponsorships, it would also seek to apply such funds in relevant projects; In situations where a company limited by guarantee has more income than expenses, the excess is referred to as a surplus and not a profit; Example: An Arms Length Management Organisation.	Eligible for certain grants; No restrictions on reserve holdings; No restrictions on trading or borrowing against assets. Flexible and commercial; Attractive to newly independent organisations; Flexible for private sector partnerships; Directors are performance accountable.	Ineligible for much grant funding; Prohibition on profit distribution could reduce appeal for private sector; No asset locks reduce security for LAs; No independent regulation reduces security for certain areas and sectors. Accounts & annual return to Registrar of Companies.	Private sector investors may be eligible for Community Investment Tax Relief (CITR) in certain areas and sectors. Accounts & annual return to Registrar of Companies.		Despite qualifying as a NPDO - thereby forming to all intents and purposes a charitable vehicle - it is only subject to the light touch regulation of Companies House (NPDO = Non Profit Distributing Organisation)	An LA looking for a model that enables its devolved service to commit to public benefit but to achieve significant improvement and become financially self-sustaining before becoming constrained by regulation.	
Civil Sector	Charitable company limited by guarantee (CCLG)	CLGs are usually non-profit organisations such as charities, clubs and associations; Emphasis is normally concerned with the provision of a service for the benefit of the public or a specific section of it; Whilst a company limited by guarantee might actively seek to maximise its revenues through donations, subscriptions or sponsorships, it would also seek to apply such funds in relevant projects; In situations where a company limited by guarantee has more income than expenses, the excess is referred to as a surplus and not a profit	Unable to hold significant financial reserves; LT vulnerable / ST restrictions; Does not support collaborative working; Unpaid Board / No quality of leadership required / less accountable Board; Restricted from non-charitable commercial activity.	Charitable status - minimum 80% relief on NINDR and exemption from Corporation Tax, Capital Gains Tax & Stamp Duty. Special VAT exemptions in some circumstances. Gift aid for investors. Must file annual accounts with both Register of Companies & Charity Commission.	Charitable status - minimum 80% relief on NINDR and exemption from Corporation Tax, Capital Gains Tax & Stamp Duty. Special VAT exemptions in some circumstances. Gift aid for investors. Annual income/expenditure returns need to be filed with the Charity Commission.		More fixed governance provisions than CIOs; No flexibility for welcoming external stakeholders within governance structure; Subject to dual regulation by Charities Commission and Companies House.	An LA in a highly philanthropic area; An LA subsidising a private/public venture	
Civil Sector	Charitable incorporated organisation (CIO)	New corporate vehicle subject only to regulation by the Charities Commission; The CIO is expected to be an option available for charities in late spring 2011. The introduction of the new model will be phased in to manage what we expect will be high demand by charities.	Reduces bureaucracy; creates a more flexible charitable format similar to that of the company format.	An untested model	Charitable status - minimum 80% relief on NINDR and exemption from Corporation Tax, Capital Gains Tax & Stamp Duty. Special VAT exemptions in some circumstances. Gift aid for investors. Annual income/expenditure returns need to be filed with the Charity Commission.		Subject to fewer fixed governance provisions and offering more flex for merger and reconstruction, with less liability (the CIO will not be penalised for the conduct of its directors)		
Civil Sector	Industrial Provident Society (IPS)	An IPS is a society conducted for the benefit of a community. It is primarily a corporate body which can hold charitable status - setting it apart from other charitable structures because its aim is not simply to provide public benefit but to produce a definable value and to generate income.	Effectively combines charitable status and risk-averse regulation with a model designed to generate income; Democratic management of assets can embed change within an organisation; Strategic-level transparency of entrepreneurialism; Supports investment in skills and staff development.	Set up costs can be high; do not support collaborative working as much as competition; old fashioned administrative and regulatory structure compared with CCLGs; largely unfamiliar within cultural sector; Many leisure trusts have devolved into IPSs but the structure is an archaic one and it is anticipated that the CIO will offer a better alternative for corporate charities.	Historical light touch FSA regulation; Accountability for Community Benefit Societies will increase when required to register with the Charity Commission [from 2010].		An LA interested in using its annual subsidy as an investment to generate a growth social enterprise business that supports community ownership, empowerment and engagement in political processes.		
Civil Sector	Limited Liability Partnership (LLP)	A body corporate with a legal personality separate from that of its members. The LLP is a hybrid entity combining the advantageous tax characteristics and organisational flexibility of a partnership with limited liability for members. Unlimited capacity - i.e. no restrictions on any activities. Cannot lose more than they invest.	Taxation applied as a partnership; no restrictions on reserve holdings; Joint venture/brings stakeholders inside a partnership - aligns interests; Protection of limited liability for members; Appeals to private sector through tax, dividend and contracting. Appeals to public sector through share restrictions or regulation.	No NINDR (National Non domestic Rates) exemptions; Ineligible for grant or social enterprise funding; Less direct opportunity to fulfil community engagement and empowerment agendas; Lack of security provided by asset lock; Possibility of ineligibility for some professional standards i.e. Accreditation.	Subject to same audit requirements as limited companies. Partnership Tax Return must be completed for HMRC. Corporate partners will be subject to Corporation Tax. A LLP cannot be part of a group for tax purposes. Normal VAT rules apply. Potential impact on partial exemption.		LLPs are governed by the LLP Act 2000 and are subject to light touch regulation by Companies House; Governance is a matter of member choice, with no requirement for directors, board structures or management structure; Members have a joint responsibility to divide the running of the business/ no individual responsibility for each others actions;	An LA in a deprived area or with services requiring high capital investment and wishing to contract out services to private partners in a PPP; An LA wishing to donate profits earned from LLP membership to other services and claim gift aid.	

Commissioning - common service delivery models

Civil Sector	Community Interest Company (CIC)	CICs are limited companies created for organisations that wish to conduct a business activity for community benefit; They may engage in trading and, with approval, borrow against their assets.	Eligible for most grant funding; Can access loan finance and hold unrestricted reserves without intervention; The structure supports entrepreneurs; Appeals to private sector collaborators because of ability to pay dividends, reward loans and contract out services; Reliably regulated; Capital and asset lock - prevents cultural property being used wrongly; Board members can be paid so are accountable and performance managed.	Offers limited philanthropy. Shareholders can vote to change its purpose - market flexibility, however need to safeguard cultural holdings.	Private sector investors could be eligible for EIS relief. Must file accounts, annual return & a community interest company report with Registrar of Companies.	An LA interested in actively enabling regeneration in deprived local areas; An LA able to broker strong relationships and partnerships between a thriving local private sector and its third sector / cultural sector direct delivery services; An LA interested in empowering small and specialist services to become fit for full devolution.	The Community Interest Companies regulator will consider whether applications meet the criteria to become a Community Interest Company. If satisfied, the regulator will advise the registrar in Companies House who, providing all the documents are in order, will issue a certificate of incorporation as a Community Interest Company. Source: http://www.awics.co.uk/documents/briefing_papers/economic_development/Community_Interest_Companies__15-12-2007.pdf
Civil Sector	Volunteering/ Resident & Tenant Associations/ Community groups	A Residents' Association is a local group, made up of local residents (tenants and/or homeowners) who represent the interests of everyone living in a particular area or building. Some associations come together to address one specific issue or community event (Royal Wedding), while others hope to address a wider spectrum of matters. A few British residents' associations have registered as locality-based political parties to enable them to participate in local elections at district and county council level.	Residents - getting to know neighbours; sharing ideas and local information; becoming more involved by having a greater say about decisions relating to their neighbourhood; meet new people; learn/update skills; gain confidence in dealing with local and community issues; speaking to local authority, Police etc and be taken more seriously as a formal group; accountable to local residents; increased access to training and networking opportunities; access to funding (i.e. Lottery and government grants. Local Authority - Understanding community needs and wants; satisfaction with local area; community involvement; empowering the sense of community.	Issues may arise when residents don't wish to address issues formally - the RA would need to have increased contact with residents if covering a large area of the town and be proactive when issues arise to ensure they are addressed formally.	Not governed by any legal requirements (unless becomes a limited company or charity); adoption of a Constitution is recommended. Election of strong a Chairperson to guide and focus the group; also Vice-Chairperson, Secretary, and Treasurer and committee members; need to set out your aims and stating that the group is open to all residents; account for all decisions (minutes of meetings/record and publicise expenditure etc).		
Public	Arms Length Management Organisation (ALMO)	Involves a local authority setting up a private limited company to run a particular council service. The local authority - at least at the start - is the sole shareholder - but the company is run at arms length from the council. ALMOs running leisure, social services and other council functions have been around for a few years. ALMOs have a Company Board - usually made up of one third councillors, one third 'independents' and one third tenants. All board members have a legal obligation to put the interests of the company before any other loyalties. Not-for-profit. A Company Limited by Guarantee. Example - Cheltenham Borough Homes http://www.chelborhomes.org .	When set up the council will still own the assets but it will transfer the management to the ALMO. ALMOs can be used for the whole, or part, of the council stock/service. LAs retain overall control of the performance and strategic direction of the ALMO. If an ALMO is not deemed to be a success, the relevant LA is able to wind it up and take management back in-house provided stakeholders have been fully involved in, and support, the decision. Separation of strategic and management roles. - Separation from the council allows staff to focus purely on service delivery. Customer focus.	Transactions between an ALMO and its Council are not considered to be trading, and are therefore exempt from Corporation Tax. Trading activities subject to Corporation Tax.	An operates under the terms of a management agreement set out by the authority; headed by an effective Board demonstrating sufficient expertise.		
Public	Asset transfer - Jo to confirm detail	LSVT involves the Local Authority transferring the ownership of its stock with the agreement (of the tenant). Key features (housing): <ul style="list-style-type: none"> Transferring tenants are offered benefits such as rent guarantees, stock investment programmes and rights as 'assured tenants'. The new landlord must be a Registered Provider if funding is to be secured. Transfers are funded entirely by the private sector. 	Social Housing: Affordable rents, Good quality service provision, Secure budgets for ongoing repair and maintenance and Provision for the homeless and other housing needs. The government is keen to see such transfers take place because it enables investment to be made in improving the housing stock without calling on public sector housing budgets or putting pressure on the public sector borrowing requirement. Investment: Completion of major repairs. Provision for modernisation and investment in new housing including achievement of the decent homes standard. Tenants: Protection of existing rights and overall security. Rent guarantee and board representation.	The basis for valuation for a LSVT is Tenanted Market Value. This values the stock as social housing, assuming affordable rents and good standards of maintenance. It does not reflect either the value of the bricks and mortar or the market value, and is usually less than either of these values. The council is paid the tenanted market value for the housing stock by the registered social landlord, and usually uses the proceeds to repay debt. If the tenanted market value is more than enough to repay housing debt, the council may spend the rest on investing in other services such as leisure or economic development. Sometimes the tenanted market value is lower than the level of debt that the council has outstanding from building and improving the housing stock. This situation is called 'overhanging debt' and in these instances the council must ask the government to fund the difference. Source: www.awics.co.uk			
Public	Shared Services	Two or more LAs jointly run/manage services together; Scope can be informal or formal.	Can be service specific; Likely to be cheaper and quicker to establish this model than a trust for example. Can create jobs; Ability to bid for external work - generating income; Gives the councils stability and taxpayers better value for money; Identity of the councils is retained; Each council will work to its own corporate plan which drives forward priorities and business.	Workforce and HR implications (if not handled well) - job role may change/ number of roles may be reduced etc; Brings risk, complexity and ambiguity; that can generate confusion and weaken accountability.	A framework of relationships and accountabilities must be established so that members, officers and other nominees can understand what is expected of them.	An LA wanting to maintain and create better services for all district's residents.	
?	Joint Venture	A joint venture is when two or more businesses pool their resources and expertise to achieve a particular goal; Reasons you might want to form a joint venture include business expansion, development of new products or moving into new markets; Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.	The risks and rewards of the enterprise are also shared. A joint venture could give you more resources; greater capacity; increased technical expertise; access to established markets; distribution channels	Partnering with another business can be complex. It takes time and effort to build the right relationship. Problems are likely to arise if: The objectives of the venture are not totally clear and communicated to everyone involved; The partners have different objectives for the joint venture; There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners; Different cultures and management styles result in poor integration and co-operation; The partners don't provide sufficient leadership and support in the early stages.	Set out the terms and conditions in a written agreement (may also need other agreements including a confidentiality agreement) to prevent any misunderstandings once the joint venture is up and running. A written agreement should cover the structure; the objectives; the financial contributions; whether you will transfer any assets or employees; ownership of intellectual property created by the joint venture; management and control; how liabilities, profits and losses are shared; how any disputes between the partners will be resolved; an exit strategy.		
Private	Company limited by shares (CLS)	One or more shareholders who own the business; they are thus entitled to any profits generated by the company.	Subject to Corporation Tax. Tax exempt Public Sector shareholders will get no refund or credit for tax paid by company on gains. Can take advantage of group tax reliefs. Normal VAT rules apply. Potentially private sector investors could benefit from Enterprise Investment Scheme (EIS) & CTR. Accounts & annual return to Registrar of Companies.	Most CLSs use standard (or a slight variation to) Table A memorandum and articles of association to set out a basic constitution for the business and generally permit it to carry out any legal activities in the furtherance of its profit objectives.			

Item	Officer
22 June 2011	
Date of meeting: 22 June 2011	Chairs briefing: 15 June 2011
Agree agenda by: w/c 16 May 2011	Complete reports by: 10 June 2011
Commissioning – update on current commissioning exercises	Jane Griffiths
Annual governance report – conclusion and analysis of work collated in arriving at the annual governance statement supporting the Statement of Accounts	Mark Sheldon
Annual Internal Audit report – conclusion from annual work of internal audit division	Rob Milford
KPMG Interim Audit report 2011/12 – summarises the results of KPMG’s interim audit testing, including testing of financial and other controls, to include feedback on the Public Interest Report	KPMG
Audit fee letter 2011/12 – sets out high level audit strategy and fee for 2011/12 audit	KPMG
DCLG consultation on the future of audit – consider response	Rob Milford
GO Programme – update and governance issues (presentation)	
The Bribery Act 2010 – consider new legislation and its effect on the administration of the council’s business	Bryan Parsons
Corporate Risk Register – update (briefing for information only)	Bryan Parsons
Corporate Governance Group – update (briefing for information only)	Bryan Parsons
21 September 2011	
Date of meeting: 21 September 2011	Chairs briefing: tbc
Agree agenda by: w/c 08 August 2011	Complete reports by: 09 September 2011
Year end – Audit Committee reporting	KPMG
Review of Annual Statement of Accounts	Mark Sheldon
Report on progress in delivering KPMG action plan	Sara Freckleton
Corporate Risk Register – update (briefing for information only)	Bryan Parsons
Corporate Governance Group – update (briefing for information only)	Bryan Parsons

Item	Officer
11 January 2012	
Date of meeting: 11 January 2012	Chairs briefing: tbc
Agree agenda by: w/c 28 November 2011	Compete reports by: 30 December 2011
Future external audit proposals – government response to consultation	
Joint training session with Cotswold and West Oxford councillors?	
Corporate Risk Register – update (briefing for information only)	
Corporate Governance Group – update (briefing for information only)	
Rob Milford	
Rob Milford / Mark Sheldon	
Bryan Parsons	
Bryan Parsons	
21 March 2012	
Date of meeting: 21 March 2012	Chairs briefing: tbc
Agree agenda by: w/c 06 February 2012	Compete reports by: 09 March 2012
Corporate Risk Register – update (briefing for information only)	
Corporate Governance Group – update (briefing for information only)	
Bryan Parsons	
Bryan Parsons	
20 June 2012	
Date of meeting: 20 June 2012	Chairs briefing: tbc
Agree agenda by: w/c 7 May 2012	Compete reports by: 08 June 2012
Corporate Risk Register – update (briefing for information only)	
Corporate Governance Group – update (briefing for information only)	
Bryan Parsons	
Bryan Parsons	
Items to be added at a future date	
Changes to the appointment process for external auditors (abolition of the Audit Commission)	
KPMG	
Corporate Strategy 2011/12 – consideration of governance issues	

Briefing Notes

Committee name: Audit Committee

Date 22 June 2011

Responsible officer: Bryan Parsons

Corporate Risk Register

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

1. Why has this come to Audit Committee?

- 1.1 To provide the Committee with a copy of the Corporate Risk Register and information on how and when risks are monitored, reviewed and reported.

2. Summary

- 2.1 The Audit Committee revises and reviews the Risk Management Policy on an annual basis. This document provides a framework and guidance for staff and members on the management of risk within the council.
- 2.2 Corporate Risks are recorded within a register (CRR) that is reviewed 4 weekly by the Senior Leadership Team (SLT). The CRR is reported to Economy and Business improvement overview and scrutiny committee for comment and then to cabinet 3 times a year for approval. In addition to this formal reporting cycle Cabinet Members are provided with revised copy of the register every month following the SLT meeting so that they can discuss specific risks with their owners.
- 2.3 It has been suggested that a copy of the CRR should also be provided to the Audit committee on a regular basis so that members are aware of the risks being recorded and monitored.

3. Conclusion

- 3.1 A copy of the CRR has therefore been provided at appendix 1 for your attention. If you have any comments or suggestions these will be taken on board and either included in reports to EBI and Cabinet or used by officers to improve the monitoring process.
- 3.2 A timetable for the monitoring, review and reporting of corporate risks is also attached at appendix 2.

4. Summary of supporting information

- 4.1 Appendix 1, The Corporate Risk Register as approved by SLT on the 10th May 2011 and reviewed by Economy and Business Improvement overview and scrutiny committee on the 23rd May 2011

Appendix 2, CRR - Timetable for review, update and reporting cycle – 2011/12.

5. Further information

- 5.1** If you require any further information on any of these issues please contact Bryan Parsons - Policy officer - governance on 01242 264189 or bryan.parsons@cheltenham.gov.uk

Cheltenham Borough Council Risk Register SLT 10-05-2011 Version 1				Managing risk			Mitigating action taken (if you are not going to meet the deadline explain why, what action is being to mitigate the risk and what new deadline you propose.)		Date of current last update	
Risk Ref.	Risk description	Risk owner	Date raised	Risk score		Proposed Action	Deadline	On Target for deadline?	Responsible officer	
				Impact	Likelihood					
1	CR23 If resilience issues are not addressed in the Payroll service, the service quality for employees will be impacted, and may impact on partner relationship with CBH, possibly impacting funding stream from CBH, and there will not be sufficient resource to support necessary tasks regarding payroll and ABW (GO) implementation.	Director People Org Dev & Change Amanda Atfield	01/04/10	4	5	Reduce	End June 2011	Green	HR Operations Manager Julie McCarthy	10/05/11
2	CR41 If capacity to lead and manage the changes, at the same time as implementing major change (i.e. a new ERP system), is not secured then the benefits from commissioning and the ERP system will not be fully realized, and morale and motivation may be impacted adversely – affecting existing SLT, members and service managers	Chief Executive Andrew North	28 th October 2010	4	4	Reduce	01/04/12	Green	Dir People, OD & Change Amanda Atfield Senior Leadership Team	10/05/11
3	CR9b If the Highways Authority is unable to support the traffic proposals which underpin the civic pride schemes then vision and outcomes will not be achieved, and this will impact on the council's reputation and the future economic position of the town.	Task Force Managing Director Jeremy Williams	01/04/10	4	4	Reduce	June/July 2010 Mitigation strategy original deadline January 2011 revised to March 2011	Green	Task Force Managing Director Jeremy Williamson	06 05 11

row number

Cheltenham Borough Council Risk Register SLT 10-05-2011 Version 1				Risk score Impact and likelihood			Managing risk			Mitigating action taken (if you are not going to meet the deadline explain why, what action is being to mitigate the risk and what new deadline you propose.)		Date of current last update	
Risk Ref.	Risk description	Risk owner	Date raised	Impact	Likelihood	Score	Control	Proposed Action	Deadline	On Target for deadline?	Responsible officer		
4 CR3 3	If the council does not keep the momentum going with regards to the JCS then the policy vacuum left by the abolition of the RSS and the resultant delay in projections and framework could result in inappropriate development.	CEX Andrew North	10.08.10	4	4	16	Reduce	Agreement across Gloucestershire districts to work collaboratively on determining housing and employment projections by the end of the year. Revised timetable for JCS considered and agreed by MSG April 2011. County Council Housing projections work published May 2011. Econometric Housing Model - work progressing and on target to deliver July 2011	01/04/13	Green	Spatial planning manager – Tracey Crews	Review of all programme activities underway. The contract to deliver econometric housing model signed first outputs expected March 2011 Members steering group considering ways in which timetable for JCS can be advanced.	08/04/11
5 CR3 4 a	If the council does not have robust testing of its business continuity plans then there is a risk that they may not be effective	Exec Director Grahame Lewis	05.07.10	4	4	16	Reduce	Desk top recovery test based on worst case scenario i.e. municipal offices out of action	01/12/2010 01/09/2011	Green	Exec Director Grahame Lewis	Desk top exercise undertaken and BCP are being revised in light of this test. Planned testing of depot back up arrangements will need to be organised in new year This risk has been split to allow for on going resilience testing of BCP with a new deadline of 01/09/2011	07/01/11
6 CR3 4 b	If the council does not have robust testing of its business continuity plans then there is a risk that they may not be effective	Exec Director Grahame Lewis	05.07.10	4	4	16	Reduce	Two storage area networks to be purchased for real time backups of ICT data, and purchase of additional UPS battery supply for the municipal offices. Full test with depot as stand by site to be tested	01/07/11	Amber	ICT Infrastructure Manager Paul Woolcock	Planned testing of depot back up arrangements will need to be organised in new year/installation of equipment and software is complete. The recently implemented infrastructure will support 25 key systems (this figure can grow to meet business requirements). The council has a business continuity plan that covers a wide range of business systems including the need for an effective ICT back up system at the depot. The council is currently upgrading its back up systems having installed new equipment and work is progressing to migrate the key business systems. Once fully operational the council will be in a position to undertake a full test and the target date for carrying out a robust test for this back-up system is Mid May 2011. The outcome for this test will provide assurance to SLT that its back-up systems are effective.	03/03/11

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Cheltenham Borough Council Risk Register SLT 10-05-2011 Version 1				Managing risk			Mitigating action taken (if you are not going to meet the deadline explain why, what action is being to mitigate the risk and what new deadline you propose.)		Date of current last update				
Risk Ref.	Risk description	Risk owner	Date raised	Impact	Likelihood	Score	Impact and likelihood	Proposed Action	Deadline	On Target for deadline?	Responsible officer		
7	CR3 5 If the current public service proposed budget cuts mean that the county council are unable to fund and provide officer resource for strategic infrastructure planning phase 3 then the JCS will not be supported by robust evidence which may lead to inappropriate development	CEX Andrew North	10.08.10	4	4	16	Reduce Control	Chair of the cross boundary member steering group to write to GCC with concerns. GCC continue as members of the cross boundary programme board and member steering group and therefore understand requirements Development of community infrastructure levy scheme as part of the JCS will demonstrate requirement for effective infrastructure planning	Review position 01/06/2011	Amber	Spatial planning manager – Tracey Crews	Verbal confirmation that the County will have difficulty in supporting the infrastructure requirements of the JCS strategy staff cuts. Awaiting confirmation that SIDP support can be offered from the County until June 2011. JCS PM to explore the cost implications of bringing infrastructure planning in-house post June 11 and develop a JD/person specification.	11/05/11
8	CR4 5 If sites identified within former Civic pride programme do not generate sufficient net receipts then the wider aspirations e.g. public realm will not be deliverable	AN/JW	21 07 10	4	4	16	Reduce	It may be possible to utilise receipts from other non Civic Pride sites e.g. Midwinters if necessary. Effective soft market testing suggests optimism over net receipts. There is a need to de-risk by early identification of issues relating to legal title, archaeology or the environment to minimise delay.	February 2012 - financial close on North Place	Green	Task Force Managing Director Jeremy Williamson	5 short listed bidders identified and invited to proceed to next (Outline solution) stage. All have sound financial covenants and track record in delivering similar schemes.	06 05 11
9	CR5 2 If the Waste Project between some of the GO partners has significant effects on the GO programme from both a Governance and operational perspective, delivery of the GO Programme may be adversely impacted.	Exec Director Grahame Lewis	10/05/11	4	5	20	Reduce	Mitigating actions - a set of fact finding tasks has been initiated, including a meeting held on 3rd May, covering legal, finance, communications, governance, and human resources issues as related to the GO Programme.		Amber	Director of Resources Mark Sheldon	Work has been undertaken to determine the interrelationship between the GO programme and ERP build and the waste project to ensure that the implications of both are understood and are addressed in the reports to be considered by the Cabinet and Council in June / July 2011.	10/05/11

row number

Cheltenham Borough Council Risk Register SLT 10-05-2011 Version 1				Risk score Impact and likelihood			Managing risk			Mitigating action taken (if you are not going to meet the deadline explain why, what action is being to mitigate the risk and what new deadline you propose.)		Date of current last update
Risk Ref.	Risk description	Risk owner	Date raised	Impact	Likelihood	Score >16 Red 7 to 15 Amber 3 to 6 Green	Control	Proposed Action	Deadline	On Target for deadline?	Responsible officer	
10 6	Due to financial constraints the GO Programme does not have a separate business change manager role, and if the necessary change both within the retained organisation and inside the shared service does not take place to the required level, savings may be compromised. This was logged as a risk in August 2010, however on 20th April 2011 the GO Programme Board took a decision to increase the risk rating.	Exec Director Grahame Lewis	10/05/11	3	4	12	Reduce	Mitigating actions - GO Programme Manager to maintain a close watching brief of business change tasks. Risk level raised as action was felt insufficient for the task. Other possible actions being considered. CBC to consider funding bid for business change capacity. CBC local GO implementation project (Project GOPK) to commence July 2011. Further assessment of CBC capacity requirements to take place as part of GOPK.	01/09/11	Green	Director People Org Dev & Change Amanda Atfield	10/05/11
11 3	Resourcing : If availability of critical resources during the GO implementation and post implementation period - then officers involved in project may be unable to provide day to day delivery of service to their authority.	Director People Org Dev & Change Amanda Atfield	19/04/11	3	5	15	Reduce	Mitigating actions: Project structure and reporting defines resource requirements and will highlight any issues. Local GO implementation project due to commence July 2011 (GOPK).	01/03/12	Green	Director People Org Dev & Change Amanda Atfield	10/05/11
12 4	If CBC do not complete the PCI self assessment and identify all of the risk then there is a risk that there could be a breach in security and subsequent fines from the Information Commissioner	Director of Resources Mark Sheldon	23/02/11	5	3	15	Reduce	Carry out self assessment to ensure compliance with PCI standard	31/03/12	Amber	ICT Infrastructure Manager Paul Woolcock	11/05/11

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13	CR40 If Partner organisations are not sufficiently 'bought into' the commissioning process then there is a risk that the commissioning work will be done in isolation and potential savings and effective delivery of outcomes will be reduced.	Chief Executive Andrew North	28 th October 2010	4	3	12	Reduce	Effective engagement with the VCS forum, plus other partners through CSP and thematic projects to engage partners and create alignment. Ensure that joint funding is subject to use of proper commissioning disciplines.	Continuing to October 2012	Green	Partnership Manager Richard Gibson	10/05/11
14	CR7 Icelandic banks - financial exposure If the group claim against Clifmir bank fails and the council is not recognised as a 'priority depositor' the council's deposits would be re-classified as 'general unsecured creditors' resulting in a lower recovery rate and exposure to defendant's costs.	Director of Resources Mark Sheldon	09/04/10	4	3	12	Accept	Council commitment to join in group action with other councils to make case for priority depositor status. Capitalisation direction approved for £4.43m allows for write off of loss over 20 years.	01/03/11	Green	Director of Resources Mark Sheldon	07/01/11
15	CR50 If knowledge and skills about commissioning are not developed within the organization, there is a risk that services will not be commissioned or delivered in the right way which may impact on flexibility and/or costs.	Director People & Change Amanda Atfield	25/02/10	3	4	12	Reduce	Identify resource to deliver knowledge and skills needs (i.e. in house as external funding unlikely) Knowledge programme for relevant officers/members, skills for business, development programme, developed and delivered during 2011/12.	SMS members End of June	Amber	HR Manager Learning and Development Jan Bridges	10/05/11
16	CR32 If the council is unable to realise the capital value of some of its assets it will be unable to progress the civic pride proposals	Exec Director Grahame Lewis	23/08/10	4	3	12	Reduce	Revised supplementary planning document consulted on for North Place, subject to Full Council approval. Property advisors appointed with aim of marketing January 2011.	Council December 2010 Jan 2011	Amber	Executive director	06 05 11

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					Score	Control							
17	CR36	If changes to contractual allowances are made outside the collective bargaining process, there may be local industrial action, morale and motivation may be impacted.	Director People & Org Dev Change Amanda Atfield	30/09/10	4	3	12	Reduce bargaining. Communicate and engage employees impacted re reasons for change. Ensure follow collective consultation regulations and give required contractual notice.	End March 2012	Green	HR Manager Operations Julie McCarthy.	Commenced discussion with Tus at informal JLF 22.09.2010. Potential implementation timetable developed. Ongoing discussions at two-weekly TU meetings. Risk score amended 9 November – likelihood reduced from 5 as unlikely to move from collective bargaining and working closely with unions. No current issues envisaged to require a move outside Coll Bargaining. Letter received from Unison re process for collective bargaining and outlining need for regional / national sign off. CBC has responded. Will continue to monitor the position.	10/05/11
18	CR12	If members, senior managers and employees do not recognise their obligations and responsibilities for health and safety then there is a risk to the public, customers and employees of injury and the council could face prosecution	Director People & Org Dev Change Amanda Atfield	01/02/10	4	3	12	Introduction of health and safety audits inc. plan addressing issues in the internal audit action plan Creation of a Health and Safety strategy Development of a H&S action plan for 2010-11 (to include awareness training for managers and supervisors during 2010-11) Roll out Harriet Risk Management software	01/03/2011 As per the action plan considered by audit committee Mar 2011	Green	HR Manager Operations Julie McCarthy	H&S strategy and work plan in place. Considering H&S capacity, and resource allocation given shared management of depot services, and HSE inspection later in 2011. Has been determined not to re-new licence for Harriet software, however risk assessments will continue to be carried out manually.	10/05/11
19	CR21	Art Gallery and Museum Development Trust fails to deliver the fundraising strategy, then the AG&M Development Scheme is at risk of failing to be delivered.	Director Welbeing & Culture	01/06/07	3	4	12	A fundraising risk assessment has been incorporated into all funding/grant applications submitted to date. An updated fundraising assessment will be required as part of the Heritage Lottery Fund Stage 2 application.	01/08/12	Green	Museum and Arts Manager Jane Lillystone	Contractors are due on site from the beginning of July 2011. The remaining shortfall of £919,587 will be raised through further fundraising by the CAG&M Development Trust and the Friends to CAG&M and the launch of a public fundraising campaign - which will start from the end of May 2011. A new fundraising deadline date of August 2012 has been set for the remaining £919K shortfall. The Phase III Fundraising Strategy will be launched on 25 May 2011 with the aim to have raised the £919K shortfall by the end of the build & construction stage of the project, prior to the commencement of fit out.	10/05/11

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20	CR2 Art Gallery & Museum. If the AG&M Development Scheme is not effectively managed there is a risk of the scheme failing to be delivered within the capital budget. It is also vital that the longer term revenue implications relating to maintenance and running costs are recognised within the business plan and subject to appropriate consideration within the MTFs.	Director Welbein g & Culture	01/06/07	3	4	12	Reduce	Prince II project management controls to be put in place for building construction phase. Provision has been made with the Development Schemes budget for appointment of a dedicated project manager for the scheme, based on similar appointments to previous capital investment build projects: Redevelopment Cheltenham Recreation Centre Leisure@ (2004-6) & Leisure@ Flood Reinstatement Project (2007-8)	01/09/11	Green	Museum and Arts Manager Jane Lillystone	10/05/11
21	CR2 Icelandic banks - financial exposure If the current status as priority deposits with Landsbanki bank is successfully challenged, the council's deposits would be re-classified as 'general unsecured creditors' resulting in a lower recovery rate and exposure to claimant costs and impact on the MTFs over that already factored in through capitalisation of losses.	Director of Resources Mark Sheldon	09/04/10	4	3	12	Accept	Council commitment to join in group action with other councils to defend current priority depositor status.	01/03/11	Green	Director of Resources Mark Sheldon	07/01/11
22	CR3 If the council is unable to come up with long term solutions which bridge the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision	Director of Resources Mark Sheldon	26/01/10	3	4	12	Reduce	Development of the BIG programme. Establishment of a cross party working group following the elections in May. Review budget scrutiny process. Review and rolled out revised budget consultation process. SLT presentation of new ideas to Cabinet leads.	01/09/10	Green	Chief Finance Officer Mark Sheldon	07/01/11

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23	CR47	If the emerging car parking strategy which specifically relates to development sites is not properly articulated then it is likely that any potential redevelopment could be misinterpreted and not favourably received.	AN/JW	16 02 11	3 4	12	Reduce	Need to finalise car parking strategy through parking board. Develop a communications plan to thoroughly involve stakeholders as early as possible.	To be decided	Green	Owen Parry	Introduction of a series of parking demand management applications enabling data collection and modelling of demand, linked to the work undertaken through the Civic Pride traffic modelling will assist in formulating the parking strategy. Focus groups have been established and are inputting into the engagement process, the outcome of which will be discussed at the Parking Board being held on Thursday 11th May 2011. At this meeting endorsement will be sought to continue with the process with the aim being to seek input from key stakeholders and other interested parties in the establishment of a Parking Strategy project working group. This will include application to development sites thus ensuring the strategy is properly articulated so as any potential redevelopment could not be misinterpreted and or not favourably received.	16 02 11
24	CR50	If there is not sufficient time for detailed review and approval of the Solution Design Documents (SDDs) for the GO Programme (Agresso system), and preparation for that review within required timescales, then the eventual solution design may not be robust	Director People Org Dev & Change Amanda Atfield	08/03/11	4 3	12	Reduce	Mitigating actions - Programme Plan being prepared. Need to ensure adequate time for preparing and conducting Gateway reviews of key programme documentation. Locally, need to ensure time is set aside for process work (e.g. via super users), and Programme Board members to ensure relevant attendance at sign off meetings (March/April).	05/04/11	Green	Director People Org Dev & Change Amanda Atfield	Ensured key employees were made available for review of processes, and work prioritised to help this - this is now completed. Final sign off took place (Finance and Procurement) 18th April. E Recruiter process design to be approved electronically by 17th May, no resource issues. Suggest this risk can be completed and closed.	10/05/11
25	CR55	If the council is not alert to new legislation with regard to fixed term tenancy arrangements and social rents then it may find that there are issues with people's ability to access social rented properties and the potential disruption to communities as people face fixed term tenancy arrangements.	Director Commissioning - Jane Griffiths	19th April	3 3	9	Reduce	Member working group to be established to understand the implications. Following review tenancy strategy to be drafted in consultation with CBH. As part of the review consideration to be given as to how the changes will impact on housing advice and housing options. Review to report back to cabinet October 2011	01/10/11	Green	Director Commissioning - Jane Griffiths	New risk	11/04/11

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26 CR5 4	The proposed welfare reforms and parallel increases to affordable rents may lead to an increase in housing rent arrears across the social rented sector.	Director Commissioning - Jane Griffiths	04/04/11	3	3	9	Reduce	Keep government proposals for reform under review. Housing working group to be established to understand the impacts and what further action our housing benefit teams can undertake to mitigate against the reforms.	01/10/11	Green	Director Commissioning - Jane Griffiths	New risk
27 CR4 8	If key employees are suddenly unavailable then service delivery will be severely compromised.	Chief Executive Andrew North	16 02 11	3	3	9	Reduce	SLT to agree a working definition of key role - along lines of "highly technical, specialist knowledge residing in a single individual, that could not be easily picked up or covered by others in the event of sudden loss of that individual, the work cannot wait (is time driven)". SLT to identify which roles in their areas were "key" that would cause a major service disruption issue if they were suddenly unavailable - e.g. what is the degree of risk - what is in place that could cover the loss. SLT to determine actions to take in the event of a sudden loss of the key employees - this may vary according to the nature of the role/key employees. SLT to review findings of above actions.	31/07/11	Green	Director People Org Dev & Change Amanda Attfield	SLT discussed working definition 10th May 2011. A key role identified in CDTF - aim to document activities and discussions as far as is practicable and utilise Task force sub groups. Provide routine briefings to GL and or AN as appropriate.
28 CR1 3	If members, senior managers and employees do not recognise their obligations and responsibilities for equalities then there is a risk that we could be treating people unfairly and the council could face prosecution	Director Commissioning - Jane Griffiths	01/03/10	3	3	9	Reduce	Equality action plan to be prepared which enables council to be at achieving level for the equality framework for local government	01/03/11	Amber	Policy and Partnerships Manager Richard Gibson	Equality impact assessment has been carried out on the budget, equality issues has been included in new community assessment tool to be used as part of commissioning work. Need for SLT to be briefed on the introduction of the new public sector equality duty set out in the Equality Act.

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29	CR17 If members, senior managers and employees do not recognise their obligations and responsibilities for information management including data quality and information security then it could result in ill informed decisions, unreliable outcomes, ineffective use of resources and loss of assets, leading to a reduced public reputation and a lack of confidence from regulators	Director Commissioning - Jane Griffiths	01/02/10	3	3	9	Reduce	Annual data audit undertaken to identify classification of data Information strategy to be developed jointly with CBH	revised target date set - March 2012	Amber	Director of Resources Mark Sheldon	Information strategy has been discussed by officer working. Objectives and work plan to be compiled. Admin support identified	10/05/11
30	CR20 If councillors and officers do not "draw a line" under the review and move forward as recommended by both the judge and KPMG there is a reputation risk, as well as a risk that further resource both financially and time could be incurred	Chief Executive Andrew North	10/03/10	3	3	9	Reduce	CEX has discussed this matter with group leaders Letter of apology signed by CEX and Group leaders Clear action plan developed on lessons learnt. CEX to discuss with group leaders should any further issues arise.	01/09/11	Green	Chief Executive Andrew North	It would appear that councillors have responded constructively in learning lessons from the review without blame. However, points of tension may still arise and continued vigilance is required This will be reviewed following the final consideration by the Audit Committee March 2011. recommend closure	08/04/11
31	CR29 If the council does not implement the actions identified in the climate change adaptation risk assessment there is a risk that resources will not be used to best effect which could impact on financial, environmental and service decisions and affect service delivery.	Director Commissioning - Jane Griffiths	06/05/10	4	2	8	Reduce	Services are required to identify the actions they will be taking to respond to climate change (both adaptation and mitigation) in 2011/12 service plans. Internal audit has a trained officer in environmental auditing who will be assessing progress against the adaptation risk assessment.	01/06/2010 Target date changed to June 2011 01/03/2011	Green	All Directors Audit Partnership Manager Richard Gibson, policy and partnership manager	Given the new divisions following the s4 reports new service plans will need to be developed and this will be an ideal time to incorporate adaptation requirements Internal Audit now has a trained environmental auditing officer. This officer has completed a Sustainability & Environmental Management Review due to be discussed at Audit Committee on the 12th January 2011 An assessment tool was approved by the programme board in November and will be used in the initial review of leisure and culture to test its use and revised accordingly SLT have reviewed the planned climate change adaptations and have asked divisions to identify climate change champions; this champions group will be established once restructuring has been completed and risk assessments revised to reflect new structures. Risk remains amber but likelihood has been reduced to reflect completed and planned actions	08/02/11

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32	CR51	Airport Project If the airport project cannot be delivered within the business plan parameters. (including borrowing limits) approved by Cheltenham and Gloucester city councils, then the borrowing costs may fall on the councils	Director of Resources Mark Sheldon	09/03/11	2	4	8	Reduce	The project team must ensure that the project is delivered to the agreed costs and timescale	01/04/11	Green	Director of Resources Mark Sheldon	Development funding agreement in place to protect council interests. Project management in place and expert project assurance role being provided for stakeholders to monitor costs in line with business case. New Risk	009/03/2011
33	CR49	If County LEP does not progress then it may damage the ability of the Task force to deliver wider vision through inability to access potential funding and technical resources	Chief Executive Andrew North	21 07 10	2	4	8		Engage with County and other stakeholders throughout development and bidding stage of LEP process	On going	Amber	Chief Executive Andrew North	LEP proposal discussed with stakeholders and submitted to Dept. CLG and BIS	08/04/11
34	CR10	If the council is unable to approve long term solutions for its waste and recycling services then costs will continue to increase and the council will fail to meet its strategic environmental targets	Director Operations Rob Bell	01/02/10	3	2	6	Reduce	Options appraisal complete and being presented to Environment Overview and Scrutiny. County residual waste strategy being developed. Report to cabinet on future options scheduled for 27th July 2010. If approved, risk rating will significantly reduce.	01/03/11	Green	Waste and Recycling Manager Beth Boughton	Cabinet approved new waste and recycling change programme on 27 th July 2010. Project underway to deliver these changes and is currently on track. County residual waste strategy still in development Risk rating to remain at 6.	07/01/10
35	CR39	Requirement to fund projected overspend from General Balances would result in General Balances falling below the minimum range of £1.5m to £2m set by the Chief Finance Officer.	Cabinet	01/06/10	3	2	6	Reduce	In preparing the revised budget for 2010/11, an exercise to realign earmarked reserves will be undertaken in order to strengthen the level of General Balances.	01/12/2010 30/06/2011	Green	Director of Resources Mark Sheldon	SLT have agreed a recruitment freeze and reviewed supplies and services budget resulting in a revised projection that the £800k projected overspend will be managed to zero in 2010/11. Deadline has been revised to reflect year end out turn position which will determine if mitigating actions have been successful.	07/01/11

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36 CR8	If the council does not manage its ambitious change management programme effectively it will put pressure onto employee resources and may impact on the delivery of services	Chief Executive Andrew North	01/02/10				Close	The operational programme board has an oversight of the key change programmes which are run using the Managing Successful Programmes and PRINCE2 methodologies. The council's approach to portfolio management to be agreed. Approach to be reviewed to ensure that these methodologies are applied consistently	01/03/11		Business Development Manager Ken Dale	Resource issues are being more explicitly analysed and addressed within the change programme (also bearing in mind 'business as usual') and adjustments have been made to programmes in consequence. The recruitment freeze put in place Oct. 2010 to reduce the budget may have an impact on resources and will need to be analysed in April 2011. SLT on 9 November agreed that the likelihood score should increase from 3 due to implications of the recruitment freeze. The council's approach to resource management for major change programmes and projects is now largely agreed. SLT regularly considers resource requirements and the process of establishing requirements and addressing issues which arise is maturing. AN recommends that risk should be closed as it has been replace by CR41 agreed SLT 10-05-2011	08/04/2011
37 CR1	If the council does not implement the recommendations and action plan arising from the public interest report and working group report and put in place preventative measures based on lessons learnt then there is a potential local and national reputation risk and potential adverse audit assessment.	Chief Executive Andrew North	22/03/10				Close	All recommendations agreed by council. Action plan has been developed following discussions with officers and has been incorporated within the council's corporate strategy and will be reported through the corporate performance management system. Monitoring of the action plan is to be undertaken by the audit committee on a quarterly basis. Internal audit have set time aside in their audit plan. KPMG will review progress as part of the annual audit of accounts.	Deadlines as per the action plan. First monitoring report June 2010. Audit committee September 2010. January and March 2011		Director Commissioning - Jane Griffiths	Third monitoring report has been drafted for audit committee and actions are on track for completion. Internal audit have undertaken a review of the action plan. Suggest that this risk is closed following the final update report to audit committee on the 23rd March 2011. This should be closed	08/04/11
38 CR37	If there is national strike action as a result of the recent TUC motion to protest against the trajectory of government budget reductions, service delivery is likely to be disrupted	Director People Org Dev & Change Amanda Atfield	14/09/10				Close	Monitor likelihood, communicate Council case to employees, consult locally with unions, publish guidance to managers. Intranet updates re pay offer posted out to employees (done 18 02 2011); SLT and Cabinet lead kept informed.	01/03/11		HR Operations Manager Julie McCarthy	Monitoring situation. Employers organisation indicate strike action over pay and budget situation is unlikely, action over any proposed pensions changes is more likely. Recent letter to chief execs received from regional secretary Unison SW to clarify union position on changes to terms and conditions. Suggest this can be noted and closed as a risk.	19/04/11

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39	CR43	If CSR settlement impacts result in required GO Programme resource being consumed, then programme implementation and resulting savings and efficiency realisation, will be put at risk.	Mark Sheldon/ Amanda Attfield	###	0	0	Close	End March		Director People Org Dev & Change Amanda Attfield	This risk was raised by the Go Programme Board and scored as a high (red) risk, staying high (red) even after mitigating actions (NB the GO Programme uses different a risk scoring matrix and approach). Programme Board Members agreed that any risks falling into this category (red/red) be considered by each partner council for their own corporate risk registers and local action. The CSR impact has been assessed for CBC, and aside from the wider capacity issue risk already identified as a separate risk, no further mitigating action needs to be taken by CBC as GO Programme resources are not impacted by CSR 2010. Discussed at SLT on 1st February 2011, risk is noted and closed at sit 10052011.	40651
40	CR26	Airport If the airport project cannot be delivered within the parameters, (including borrowing limits) approved by Cheltenham and Gloucester city councils, the future viability of the airport and improved returns to shareholders could be jeopardised.	Director of Resources Mark Sheldon	01/04/10			Close	01/09/2010 01/04/2011		Chief Finance Officer Mark Sheldon	Council approved additional borrowing facility to support the delivery of the revised business plan reflecting post tender evaluations. All legal documentation and procedure for loan mechanism now in place. Negotiations over Blenheim house remain unresolved. Deadline has been revised to reflect ongoing negotiations in relation to Blenheim house Risk Closed as per SLT1st March (new Airport Risk created)	07/01/11
41	CR16	Festivals – partnership delivery partner and if relationships with CF are not effective then the partnership arrangements become untenable which will result in councils image and reputation being put at risk.	CEX\ Dir Wellbeing & Culture	01/03/10			Close	Ongoing		CEX\AD Wellbeing & Culture	Quarterly meetings now in place with CF board members, CBC members & key members of SLT. Risk closed SLT 04-01-2011	05/01/11

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42	CR4 There is a reliance on shared services and sourcing strategy delivering savings. If these savings do not materialise or shared services do not proceed as anticipated then other savings will need to be found to meet the MTFS projections	Director of Resources Mark Sheldon	01/12/10		Close	All shared service projects and sourcing strategy are operated under Prince 2 principles, with clear business cases and risk logs.	As per agreed programme timetables		Strategic Director Pat Pratlley	06/01/10
43	CR15 Festivals – future funding. If CF fail to achieve 2010 budget forecasts there is a risk of the company requiring further CBC financial support for which there is no provision within the MTFS and a potential impact on CFs long term financial sustainability.	Director Welbeing & Culture	01/03/10		Close	Financial monitoring arrangements in place through CIG. CBC represented by 2 member observers on CF Board. Joint O&S Working Group assessing long-term financial sustainability. Commencement of monthly internal meetings by CEX Managing CF., with Cabinet member/leader in attendance	CIG Review September 2010		AD Welbeing & Culture \ CIG Review Group	05/01/11
44	CR42 Unable to take corrective action in respect of reduced income streams in 2010/11.	Cabinet	01/06/10		Close	In preparing the revised budget for 2010/11, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	01/12/10		SLT	05/01/11
45	CR18 If the recession continues or recovery is not as anticipated then it will impact upon the income targets as set out in the MTFS.	Director of Resources Mark Sheldon	01/12/09		Close	Ongoing budget monitoring of income targets will highlight issues and corrective action which needs to be taken, and will be reported through the budget monitoring reports and reflected in updated MTFS projections. Action is being taken to reduce operating costs to compensate for potential sustained reduction in income levels.	September 2010 budget strategy report		Chief Finance Officer Mark Sheldon	05/01/11

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46 CR14	The overall project significance of the CBH new build proposals which are an innovative approach to development of affordable housing including prudential borrowing funded from rental income using a unique approach to delivery in a high profile and sensitive area of the town, require both parties to ensure that there are effective programme and project management arrangements.	AD Community Services Peter Wooley	29/03/10				Close	The delivery partner, CBH, is a high performing organisation with a sound track record on delivery e.g. the decent homes programme. Support from the HCA demonstrates confidence in process / delivery model. External modelling using industry standard of financials provides assurance. CBH has undertaken significant consultation with residents to ensure buy in to proposals. CBH is working with appointed cost consultants to ensure that contract sums are comprehensive at the time of commitment to contract and that associated contingencies	On-going		Assistant CEX at CBH Paul Stephenson	All agreements now signed, contracting underway. CBH has successfully progressed to development stage at St Pauls & Brighton Road. HCA funding has been secured, other funding streams are being put in place and the contracting process has begun. Finance and One Legal are working closely with the Housing Client and Trainers to ensure probity and best practice in this innovative project. Risk closed SLT 04-01-2011	05/01/11

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Corporate Risk Register – Review, update and reporting cycle – 2011/12

SLT review date	Year	Informal copy to Cabinet	Report to EBI, O&S	Information copy to Audit Com	Report to Cabinet	Version number
10 th May	2011	12 th May	23 rd May	22 nd June	21 st June	Version 1
21 st June	2011	24 th June				Version 2
19 th July	2011	21 July				Version 3
16 th August	2011	18 th August				Version 4
13 th September	2011		19 th September	21 st September	27 th September	Version 5
11 th October	2011	13 th October				Version 6
8 th November	2011	10 th November				Version 7
6 th December	2011	8 th December				Version 8
3 rd January	2012		23 rd January	11 th January	7 th February	Version 9
31 st January	2012					Version 10
28 th February	2012	1 st March				Version 11
27 th March	2012	29 th March				Version 12
24 th April	2012	26 th April				Version 13
22 nd May	2012		11 th June	20 th June	19 th June	Version 14
19 th June	2012	21 st June				Version 15

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Briefing Notes

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Committee name: Audit Committee

Date 22nd June 2011

Responsible officer: Bryan Parsons

Corporate Governance Group

This briefing paper contains information to keep Members informed of matters relating to the work of the Committee, no decisions are required but members can make comments on the work of the group or suggestions for additional action.

1. Why has this come to Audit Committee?

1.1 To update the Committee on the work of the Corporate Governance Group (CGG).

2. Summary

2.1 The council has a statutory duty to prepare an annual governance statement (AGS) to be approved as part of the annual statement of accounts. The AGS includes a Significant Issues Action Plan (SIAP); this is approved by the Audit Committee and indicates how the council is complying with the code of corporate governance including internal control arrangements. The audit committee need to satisfy itself that the AGS fairly reflects the arrangements within the council.

2.2 The CGG which is chaired by the Chief Executive and routinely meets to;

- monitor and challenge the internal controls (Annual Certificates of Assurance checklist),
- monitor progress against any recommendations that arise from external audit assessments,
- consider progress against the SIAP; and
- monitor the risk management procedures.

The minutes of the CGG since the last the last Audit Committee are being provided to the Audit Committee so that they will have a more informed view of the issues when the AGS is presented to it for approval.

3. Conclusion

The CGG have agreed terms of reference and considers information from a range of internal control sources and assurance checks. These issues and the outcomes from the checks are placed within appropriate action plans, discussed and monitored. The CGG would welcome any comment or input from the audit committee on progress against the action plan or items recorded within the CGG minutes.

4. Summary of supporting information

- Appendix 1 minutes of the Corporate Governance Group meetings on the 23rd March 2011, 21st April 2011 and the 31st May 2011.

5. Further information

5.1 If you require any further information on any of these issues please contact

Bryan Parsons - Policy officer - governance on 01242 264189 or

bryan.parsons@cheltenham.gov.uk

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**Corporate Governance Group
Minutes
3rd March 2011
2.00 pm Sherbourne Room**

Item	Subject	Lead Officer
1	Apologies;	Amanda Attfield, Julie McCarthy deputised. Rob Milford, Olivia Hazell deputised
2	Minutes of the last meeting 3 rd February 2011	Minutes accepted but the following was carried forward <i>JG said that MS was now the councils rep on the Audit Partnership board and that she had been asked how the portfolio member could become more engaged in what was taking place. MS said that he would discuss that matter with the councillor Hay to see the request and involvement.</i>
3	Revised Risk Management Policy	Risk Management Policy was discussed and AN made a suggestion in relation to the definition of risk so that it reflected positive risks and how risk could be used to the benefit of the organisation. BP to amend policy
4	Significant Issues Action Plan	SIAP discussed and it was agreed that the payroll issue would be reported within the annual governance statement SIAP. BP to amend.
5	Annual Governance Statement	MS and Jane updated the group on the 2010-11 AGS and MS confirmed that it would now be within his area of responsibility. BP would produce first draft.
6	Policy review - Anti Fraud Corruption Policy - Bribery and Corruption - Proceeds of Crime and Money Laundering - Whistle Blowing	OH presented a paper produced by RM. The paper was discussed and it was noted and agreed that CBC needs to ensure that policies outlined in the paper are kept up to date. It was also agreed that the audit section should consider the need for an anti Theft policy and if the policies should be combined. It was suggested that the audit manager undertake a review of the policies and bring to the group recommendations. RM
7	PIR final review of action plan	SF outlined the work that had been carried out to complete the recommendations and the audit committee report. There were two main issues to be resolved, the monitoring of decisions and the review. of the constitution.
8	Constitution - On going updates - Review - Aide memoir /	As above.
9	AOB	None
10	Date of next meeting 21 st April 2011, Montpellier	

Corporate Governance Group

Minutes
21st April 2011
11.00am Montpellier Room

Item	Subject	Lead Officer
1	Apologies;	Amanda Attfield. Sonia Phillips.
2	Minutes of the last meeting 3 rd March 2011	Accepted
3	Revised Risk Management Policy <ul style="list-style-type: none"> - Cabinet report - Intranet - Training package 	Risk management Policy had been approved by cabinet and an intranet update was being prepared to coincide with the release of the e-learning package. The requirement to undertake this training will be linked to job descriptions and appraisals. A number of members have requested 1-2-1 training.
4	Annual Governance Statement <ul style="list-style-type: none"> - Significant Issues Action Plan - PIR recs outstanding - timetable 	The annual governance statement had been drafted and a copy had been circulated to DR, DC and One legal. Timetable was noted and accepted to deliver AGS to Audit on the 21 st June and to full council with the accounts in September.
5	<ul style="list-style-type: none"> - Value for Money assessment 	KPMG had reported that they had completed all their work on the Value for Money exercise and that there were no issues for concern. They also reported that their auditor was leaving and would be replaced by someone from the Audit Commission.
7	Constitution <ul style="list-style-type: none"> - progress report 	The review of the constitution was ongoing and would be ready for full council in July. MS to discuss financial regs. with PL at One Legal
8	CGG Consider if membership needs to be revised following restructure	The group considered that the current members of the group were still required but that Sonia could attend when she felt it necessary. Membership would be reviewed again in 12 months time.

9	<p>Transparency - publication of Contracts - what should our approach be?</p>	<p>Spending reports had been reported on a monthly basis in line DCLG guidelines. Senior officer salaries had not been reported upon but the report was being compiled and should be reported soon.. The Local Government group has published the specification for the publication of contracts and tenders. A meeting was being arranged with AC and SH to consider what and when information should be published.</p>
10	<p>DCLG consultation Future of Local public audit - Workshop to consider the approach to completing the consultation and to draft initial responses</p>	<p>Officers considered the questions in the consultation document and RM would be preparing a report for Audit Committee on the 22nd June.</p>
11	<p>AOB</p>	<p>It was agreed that current policies and codes of practice should be reviewed by Audit and One legal and revised to ensure that guidance covers the requirements of the new Bribery Act. F</p>
12	<p>Date of next meeting 31st May, Montpellier room.</p>	

Corporate Governance Group
Meeting notes
31st May 2011
11.00am Montpellier Room

Item	Subject	Lead Officer
1	Apologies;	Rob Milford Sonia Phillips, Jane Griffiths
	Present	Andrew North, Bryan Parsons, Mark Sheldon, Julie McCarthy, Ian Watkins
2	Minutes of the last meeting 21 st April 2011	Agreed
3	DCLG consultation regarding external audit	IW explained that the DCLG consultation had been drafted by RM and it would be circulated upon his return from sick leave.
4	Annual Governance Statement <ul style="list-style-type: none"> - Draft for comment - Commissioning, assurance and the governance framework - 2012 - Information Management - Internal audit report 	<p>AGS statement had been circulated to the group and it was agreed that it should be sent to Audit Committee for approval.</p> <p>Constitution and financial rules were being revised MS and BP would be meeting One legal in the following week to consider changes. These should take into account Commissioning and the objectives of the Freedom and Flexibilities project.</p> <p>The group noted the contents of the informal audit report on assurance and were pleased to note that it reflected the findings of the annual assurance work undertaken by the Directors.</p>
11	AOB	None
12	Date of next meeting 16 th June, Montpellier room.	

Briefing Notes

Audit Committee

Date of meeting 22 June 2011

Responsible Officer Mark Sheldon

This note contains information to keep Members informed of matters relating to the work of the Cabinet but where no decisions from Members are needed.

If Members have questions relating to matters shown, they are asked to contact the Officer indicated.

GO Shared Services – Programme Update

The GO Shared Service Programme is a partnership of Cheltenham Borough Council, Cotswold District Council, Forest of Dean District Council, West Oxfordshire District Council. The GO Programme aims to develop a shared service for Finance, Procurement, Human Resources and Payroll, based on the creation of a shared IT platform, to deliver savings and improvements in service delivery.

The Programme is being managed along Prince 2 lines, has full programme governance structure, the top level being a Strategic Programme Management Board made up of the chief executives and elected members of the partner councils, with a Programme Board reporting to it (see *attached*), with thirteen separate projects reporting into the Programme Board.

Since its formal approval by Cabinet and Council in 2010, Cheltenham Borough Homes Ltd has agreed to be part of the GO Programme under Cheltenham Borough Council's membership. The services scope is now planned to encompass professional and advisory services as well as transactional (administrative) processes which is anticipated to deliver additional savings for partner councils.

Overall, the gross programme savings are estimated to be £5.2m with savings, net of the investment, of £3.8m across all 4 partner councils over a 10 year period. This compares to the original Business Case that provided for gross programme savings estimated to be £3.4m with savings, net of the investment, of £2.0m. The investment payback period is estimated to be just over 4 years. Figures for CBC are investment = £442k to generate annual savings of £269k from 2013/14. Net savings over the 10 year period are £1.6million.

Key governance structures that were approved as part of the business case have been revised and updated to reflect the above changes (see *attached*). These governance structures continue to reflect the three phases of the Programme – the period up to the first two councils going live (Stage A - up to November 2011), all organisations going live (Stage B - up to April 2012), and post go-live (Stage C - April 2012 onwards).

A programme of this scale and nature will carry a number of significant risks and a comprehensive risk register is in place, along with accompanying risk strategy. These documents have been developed in compliance with a standard Risk management approach (PRINCE2 / Managing Successful Programmes (MSP)) for assessing and managing risk. There are two main types of risk faced by the implementation of this programme:

- (a) risk involving the development and implementation of the GO partnership, and
- (b) risk of the subsequent failure of the GO partnership

In compiling the programme risk strategy there are some fundamental questions that have been addressed, including:

- (c) what risks are to be managed
- (d) how much risk is acceptable
- (e) who is responsible for the risk management activities
- (f) what relative significance time, cost, benefits, quality, stakeholders have in the management of risks

Possible risks to the success of the programme in meeting its time, cost and scope targets will be identified, assessed and managed. A risk log has been generated to register and track the programme risks in a simple and pragmatic way. Any high risks that carry a high residual risk rating are also reflected in GO partner council local risk registers.

The benefits realisation plan is indicative at this stage however, it will be compiled in order to track the realisation of benefits across the GO Programme as part of the implementation following the approval of the revised Business Case by Cabinet in July 2011. Key benefits are as outlined in the business case, and are envisaged as:

Cashable savings – All GO organisations have within their strategic aims and ambitions, the need to find solutions to budgetary pressures

Staff retention and opportunities – It is essential to retain good staff in local government to meet the challenges currently being faced by councils

Service efficiencies – All councils undertake similar work, thus creating duplication of effort and resources. Joint training, single sourcing and standardised documentation also provide opportunities for service efficiencies

Service resilience – All councils lack capacity and resilience to respond to peaks in demand or absence of staff. The lack of capacity also leads to buying in external expertise which can be expensive

Enhanced reputation – At a strategic level, the implementation of a shared ERP application and service across Gloucestershire and West Oxfordshire may provide a catalyst for future shared services. If the approach can deliver successful outcomes then it may well serve as a proof of concept that other potential shared services could adopt

The Benefits Realisation Plan will clearly show what will happen, where and when the benefits will occur and who will be responsible for their delivery. Benefits will be tracked and monitored via the governance arrangements.

See the below link to access the GO Shared Services website for more information, including the latest GO Shared Services newsletter.

<http://gosharedservices.files.wordpress.com/2011/05/all-systems-go-may-20112.pdf>

<http://gosharedservices.wordpress.com/>

Contact Officers:

Paul Jones Head of Financial Services 01242 775954 paul.jones@cheltenham.gov.uk
Amanda Attfield Director People, Organisational Development and Change 01242 264186
amanda.attfield@cheltenham.gov.uk



Background – some of the key people involved

Strategic Programme Management Board (SPMB) Membership

<u>Councillors</u>	<u>Chief Executives</u>
<i>CBC Colin Hay (Chair) CDC Barry Dare FOD Brian Robinson WO Mark Booty</i>	<i>CBC Andrew North CDC – David Neudegg FOD – Sue Pangbourne WO – David Neudegg</i>



Background – some of the key people involved

GO Shared Services Programme Board Membership

- Pat Pratley – Senior Responsible Officer
- Rob Wood – Programme Manager
- Chris Cox – Project Manager
- CBC - Amanda Attfield/Paul Jones
- CDC & WO - Jenny Poole/Sara Mullen/Paul Stuart
- FoD - Karen Gane/Su Walker
- Audit - Rob Milford
- Communications – Bob McNally

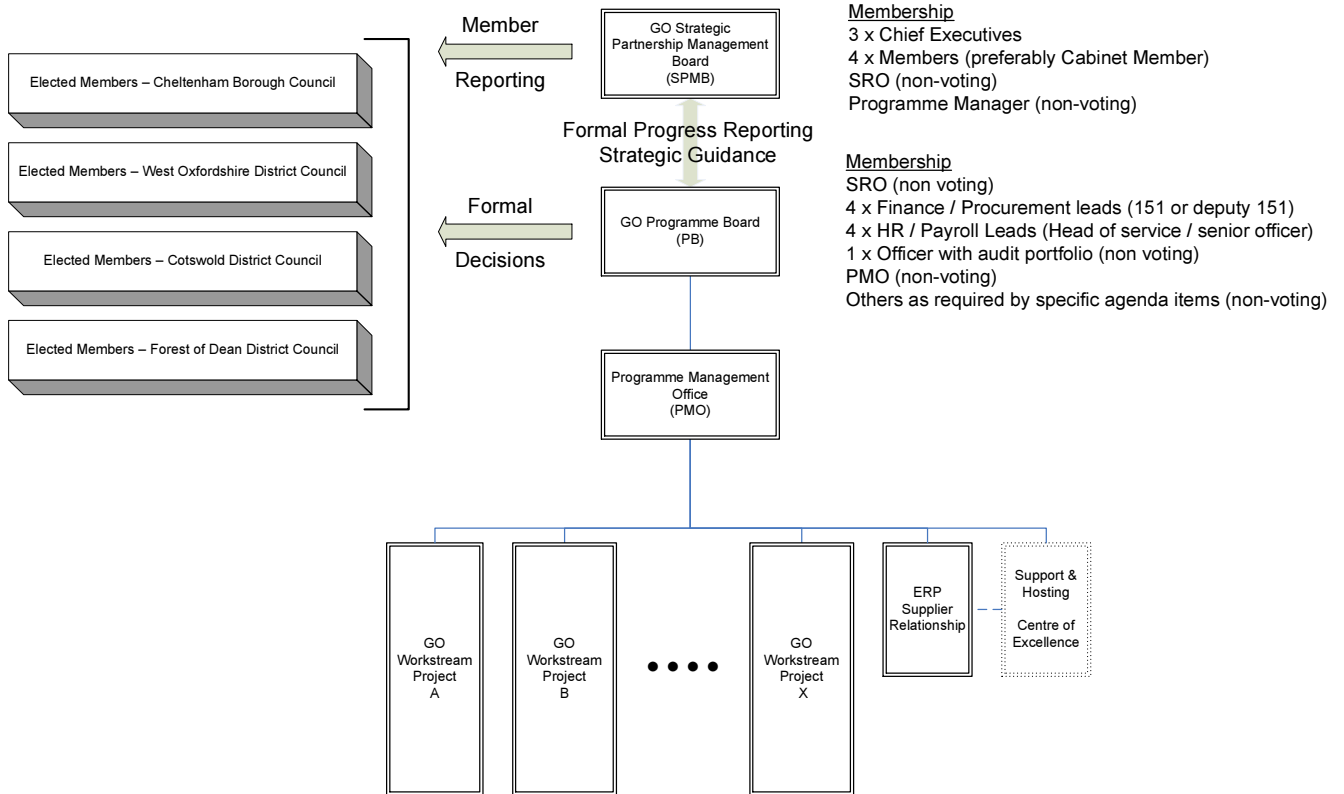
And ... across the partnership – “Super Users”, Process Leads and others are also working together to help make it a success.

Programme structure up to first two councils "go live" November 2011

GO ERP Shared Services Programme (Phase 1)

Proposed Programme Structure Implementation Period (Stage A)

(1st Nov 2010 – Up to 1st authority live)

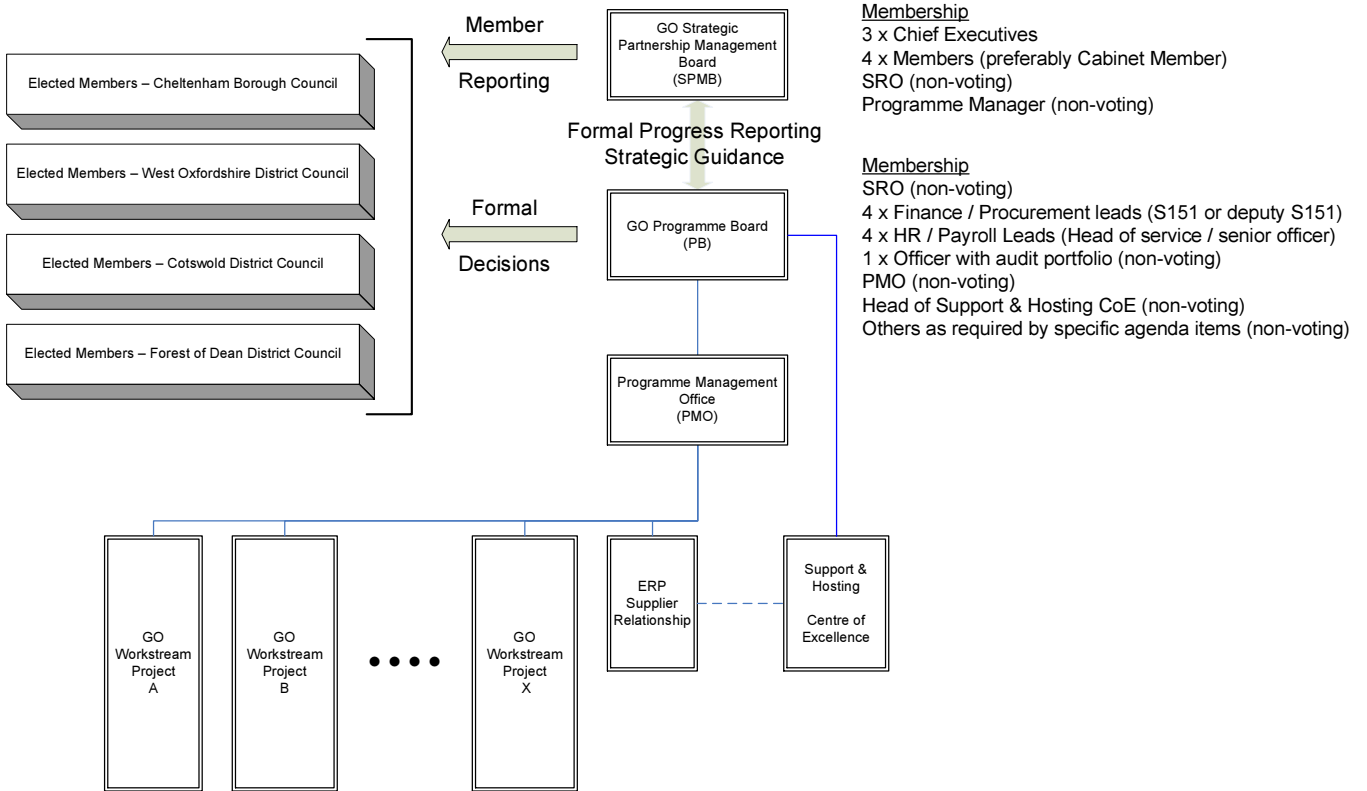


Programme structure up to all councils "go live"
 April 2012

GO ERP Shared Services Programme (Phase 1)

Proposed Programme Structure
 Implementation Period (Stage B)

(1st authority live to last authority live)



Programme structure post April 2012

GO ERP Shared Services Programme (Phase 1)

Proposed Programme Structure (Phase 1)
Post Implementation Period (Stage C)

