



# CHELTENHAM

## BOROUGH COUNCIL

### Notice of a meeting of Audit Committee

**Wednesday, 15 January 2014**  
**6.00 pm**  
**Pittville Room, Municipal Offices**

<b>Membership</b>	
<b>Councillors:</b>	Paul Massey (Chair), Andrew Chard (Vice-Chair), Colin Hay, Rowena Hay, David Prince, Tim Harman and Pat Thornton

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

### Agenda

<b>1.</b>	<b>APOLOGIES</b>	
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	
<b>3.</b>	<b>MINUTES OF THE LAST MEETING</b> To approve minutes of the last meeting held on 25 September 2013	(Pages 1 - 8)
<b>4.</b>	<b>PUBLIC QUESTIONS</b> These must be received no later than 12 noon on the fourth working day before the date of the meeting	
	<b>ITEMS FOR DISCUSSION</b>	
<b>5.</b>	<b>AUDIT UPDATE REPORT</b> Report of Grant Thornton	(Pages 9 - 24)
<b>6.</b>	<b>ANNUAL AUDIT LETTER 2012-13</b> Report of Grant Thornton	(Pages 25 - 38)
<b>7.</b>	<b>CERTIFICATION OF GRANTS AND RETURNS (FOR PREVIOUS YEAR)</b> Report of Grant Thornton	(Pages 39 - 50)
<b>8.</b>	<b>INTERNAL AUDIT MONITORING REPORT (INC PSN UPDATE)</b> Report of Rob Milford	(Pages 51 - 64)
<b>9.</b>	<b>REVIEW OF RISK MANAGEMENT</b> Report of Bryan Parsons on the arrangements for a review	(Pages 65 - 72)

		of risk management procedures	
		<b>ITEMS REQUIRING A DECISION</b>	
10.		<b>ANNUAL GOVERNANCE STATEMENT</b> Report of Bryan Parsons - An update on significant issues action plan	(Pages 73 - 84)
11.		<b>AUDIT COMMISSION REPORT - AUDITING THE ACCOUNTS 2012/13</b> Report of Bryan Parsons	(Pages 85 - 134)
12.		<b>WORK PROGRAMME</b>	(Pages 135 - 138)
13.		<p><b>LOCAL GOVERNMENT ACT 1972 -EXEMPT BUSINESS</b> The Audit Committee is recommended to approve the following resolution :-</p> <p>“That in accordance with Section 100A(4) Local Government Act 1972 the public be excluded from the meeting for the remaining agenda items as it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public are present there will be disclosed to them exempt information as defined in paragraph 3, Part (1) Schedule (12A) Local Government Act 1972, namely:</p> <p>Paragraph 3; Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p>	
14.		<b>EXEMPT MINUTES OF THE LAST MEETING</b> To approve the exempt minutes of the last meeting held on 25 September 2013	(Pages 139 - 142)
15.		<b>ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION</b>	
16.		<b>DATE OF NEXT MEETING</b> Date of next meeting: 26 March 2014	
		<b>BRIEFING NOTES (not for discussion)</b>	
17.		<b>DCLG CONSULTATION</b>	(Pages 143 - 148)
18.		<b>SHARED SERVICE GOVERNANCE ARRANGEMENTS</b>	(Pages 149 -

			160)
<b>19.</b>		<b>LGA BRIEFING</b> Local Government Association briefing for the House of Commons Committee Stage of the Local Audit and Accountability Bill: the appointment of auditors November 2013	(Pages 161 - 162)

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### Audit Committee

**Wednesday, 25th September, 2013  
6.00 - 8.15 pm**

<b>Attendees</b>	
<b>Councillors:</b>	Paul Massey (Chair), Andrew Chard (Vice-Chair), Rowena Hay, Tim Harman and Pat Thornton
<b>Also in attendance:</b>	Cllr Walklett, Mark Sheldon, Bryan Parsons, Grant Thornton, Rob Milford, Martyn Scull, Sarah Didcote, Pat Pratley, Ken Dale, Gary Spencer

### Minutes

- 1. APOLOGIES**  
Apologies received from Councillor Colin Hay.
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES OF THE LAST MEETING**  
The minutes of the last meeting were approved and signed as a correct record.
- 4. PUBLIC QUESTIONS**  
None
- 5. LEISURE & CULTURE TRUST GOVERNANCE**  
Pat Pratley, Senior Responsible Officer, Ken Dale, Programme Manager and Gary Spencer, CBC Legal Adviser gave a presentation on the Cheltenham Leisure and Culture Trust, the slides of which are attached to these minutes for information.

In response to questions from Members the following clarifications were given by officers :

- Should the Council find itself in the position that it could not repair the building there were funds in the planned maintenance budget and as this went forward the council would need to decide on those needs against other needs elsewhere. The Legal Adviser added that a variation of contract would need to be discussed first with the Trust although the Council would need to consider how to deal with a drastic change in funding e.g. terminate the contract. There was a procedure to follow should this be the case. There was however nothing specific in the clauses on such a scenario.
- In terms of which costs were borne by which party there was, in principle, a VAT efficient and cost efficient approach. Officers were currently looking at other service provision such as utilities whereby the Council, as a local authority, could purchase power on more favourable terms than the Trust.

- The Shadow Board for the Trust had its own independent legal adviser who was currently drafting the contract. The set up costs for the Trust included legal advice. To progress the project a brief had been put out to the market and there had been three expressions of interest.
- In terms of resourcing the governance function, the detail had not yet been worked out. Resourcing would be dealt within the business plan itself and this would need to be taken into account when the Trust looked at its structure.
- With regard to the risk management system that the Trust would operate, this was detail which had yet to be finalised. It was certain that there would be a risk register and possibly a risk committee. Risk management issues would be covered by the performance management framework and raised at the Partnership Board meetings.
- When asked whether lessons had been learned from Cheltenham Festivals, the Senior Responsible Officer explained that there were differences in terms of the way the Trusts were funded (management fee vis a vis grant) but lessons could be drawn on how contracts could be managed effectively. She highlighted that informal relationships had been built into the contract framework, i.e. the Chief Executives, the Trust Chair and the Cabinet Portfolio holder would meet quarterly. These relationships were important in terms of governance and moving forward.

The Senior Responsible Officer added that the team would like to attend a future meeting of the Audit Committee and in the meantime invited Members to contact them should there be any particular concerns they had about governance arrangements going forward. The Chair emphasised that the role of the Committee was to be satisfied with the governance arrangements and any areas of concern would be taken up with Internal Audit. Members were informed that the Audit Partnership Manager sat on the Programme Board for the Trust and he would lead the gateway reviews when they are undertaken.

### **6. INTERNAL AUDIT MONITORING REPORT**

The Head of Audit introduced the report and referred members to paragraph 3.2 which outlined the audits which Internal Audit had concluded or were ongoing. He made reference to the Leisure and Culture commissioning project for which officers were working in the interests of both the council and the Trust. Internal Audit was also working through various aspects of the Shared Service governance. Other work was being undertaken in respect of Counter Fraud and tenancy fraud work with Cheltenham Borough Homes. Health and Safety issues relating to the play area enhancements had also been examined and a high assurance had been given in terms of controlling the risks in this area. Budgetary control and capital expenditure was deemed satisfactory with no particular issues. Things were moving forward in terms of GO. Treasury Management had received a high assurance. The Head of Audit noted that some reports were slightly dated so it was more appropriate to examine the management responses laid down in the appendices. NNDR had received a satisfactory assurance and there were issues in terms of ICT related matters. Finally he made reference to the regulation of RIPA which was a limitedly used piece of legislation, picked up in the Office of Surveillance Commissioners report.

In response to a question on the visit from the Office of Surveillance Commissioners, the Head of Audit explained that authorities were normally inspected every 2 years and due to changes in legislation this had been pushed up on the risk radar. There had been advance warning of the visit and there were no limited assurance opinions.

When asked what work Audit was undertaking in respect of ICT services, the Head of Audit stated that a piece of work was underway on the implementation of the recommendations from the virus report. There were also network/application audits and business continuity audits and auditors were working closely with the Forest of Dean in this respect. A member expressed his extreme dissatisfaction with the ICT service at the council which, in his view, was hindering members' ability to serve the public. Such issues needed to be dealt with immediately rather than waiting for a report back in a month's time. The Chair recognised that there were issues with ICT which were directed to the Audit Committee and members needed a better sense of assurances. In the context of one particular ICT incident, he questioned whether the reduction in the planned maintenance budget had had unforeseeable consequences on service delivery in this area.

In response the Corporate Governance Officer explained that the Chief Executive was aware of the issues and a dialogue was ongoing with ICT management and the Forest of Dean which formed part of a rolling programme. The Director Resources referred to the Council's £1.3 million investment in infrastructure in February and made particular reference to the server room incident. The Audit Manager was now well aware of Members' concerns.

### **7. REVIEW OF ANNUAL STATEMENT OF ACCOUNTS**

In advance of the presentation, Paul Jones, Head of Finance, GOSS, referred to a suggestion by the Council's auditors, Grant Thornton, that an additional recommendation be added to the report as follows :

"That the letter of representation be approved for signature by the Chairman of this Committee".

It was also proposed that prior to the signing of the accounts by the Chair the Committee discussed the Auditors Audit Findings report.

Sarah Didcote, GOSS Business Partner Manager West and Martyn Scull, Corporate Accountant GOSS, then gave a presentation on the key changes and highlights of the 2012/13 Statement of Accounts, the slides of which are attached to these minutes for information.

The following points were raised and discussed :

- Icelandic Banks-last year there had been an exchange rate gain of £47 000 on the council's investments although it was uncertain what that could be in the future; some investments were being held by the administrators in escrow accounts which were in Krona. In 2009 the best information suggested that the council would not get back its £5 million and therefore the loss was charged to the expenditure account; the Government, through its Capitalisation Directive, allowed local authorities to spread this loss over 20 years which represented a relatively cost effective way of conducting business. Anticipated losses

were taken out to ensure that the council was still able to fulfil its commitments elsewhere.

- CBH-it was clarified that the apparent overspend on CBH was due to slippage in the capital programme due to the inclement weather. The tenders were still current with the same budget parameters, it was just the physical works which were behind schedule.
- It was noted that the Significant Issues Action Plan would be reviewed on 1 March

Having considered the Audit Findings Report it was

### **RESOLVED**

- 1. That the audited Statement of Accounts for 2012/13 be approved for signature by the Chairman of this Committee**
- 2. That the letter of representation be approved for signature by the Chairman of this Committee**

#### **8. AUDIT FINDINGS REPORT - ISA 260 (2012-13)**

Peter Barber, Engagement Lead, Grant Thornton, introduced the report and explained the approach to the audit of the financial statements for the year ended 31 March 2013 and the key issues arising from the audit. No material errors had been identified in the accounts. Two non trivial errors had been identified. These concerned the grossing up of debtors and creditors and the non inclusion of civic regalia. The latter had been included in the heritage assets and at £141 000 was not material to the accounts. He stated that an unqualified opinion would be provided.

The Engagement Lead noted that the Council's accounts were, for the first time, prepared by Go Shared Services (GOSS) under the new shared service arrangements and it was the first year of Grant Thornton's audit appointment. There were some teething problems which made the audit process difficult to complete within the planned deadline but there was scope to improve communication. These problems had no impact on the cost of its audit to the Council.

In terms of the Value for Money conclusion it was the intention that an unqualified opinion would be given. The Council's current arrangements for securing financial resilience were good and the Council was responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively. It had plans in place to deliver further savings of £3.3 million over the next five years. It therefore had effective arrangements in place for economy, efficiency and effectiveness.

Councillor Chard proposed a motion to thank officers in the Finance Team and Grant Thornton for these achievements in the particularly difficult current economic climate. This was seconded by the Chair.



In response to a question, it was confirmed that the civic regalia was insured to the value of £141 000.

Members were referred to Appendix A:Action Plan which was tabled at the meeting and noted the management response.

### **9. FINANCIAL RESILIENCE REPORT (2012-13)**

Peter Barber, Engagement Lead, Grant Thornton, explained that its work supporting the Value for Money conclusion included a review to determine if the Council had proper arrangements in place for securing financial resilience. He outlined the risk areas and explained that each had been assessed as green which signified that the arrangements met or exceeded adequate standards. However, a number of areas had been identified where there were recommendations for improvements. These included monitoring the working capital ratio to ensure that no financial risk arises from having current liabilities in excess of current assets, reporting on key financial ratios more regularly, consider whether the existing performance management arrangements are fit for purpose in the light of commissioning and monitoring the impact of the transfer of finance staff to GO Shared Services to assess the risk of a capacity problem arising. A management response to these five key recommendations would be reported back to Audit Committee in due course.

In response to a question, Grant Thornton said that in the context of the working capital ratio graph in the report, council tax collection rates were not used as a comparator with other local authorities. He emphasised that different authorities did have a different set of circumstances but the graph illustrated where the Council was positioned. Paul Jones explained that the working capital ratio compared current assets with current liabilities. The Council had replaced £15 million of long term borrowing with short term borrowing. This was due to the strategy the council had adopted of using maturing investments to repay short term lending. A further issue which was highlighted was the long term borrowing to the council revenue account due to changes in HRA funding with a large item appearing in 2011/12. Therefore comparisons were less useful with other councils as they did not necessarily have the same financial arrangements. The level of spend per head at CBC was consistent with other authorities and measures were in place to meet future liabilities as they arose.

### **10. GRANT CERTIFICATION WORK PLAN**

Grant Thornton explained that the most significant claims and returns in 2011-12 were housing and council tax benefit claim, national non-domestic rates (NNDR) return and pooling of housing capital receipts. The number of claims to be audited had been decreasing over the last few years. It was confirmed that no issues would be raised with NNDR or capital receipts and that the indicative scale fee for the Council would remain as laid out in the report.

### **11. OFFICE OF SURVEILLANCE COMMISSIONERS - RIPA INSPECTION REPORT**

The report was introduced by the Governance, Risk and Compliance Officer, Bryan Parsons. The purpose of the report was to update the Audit committee on the July inspection and report by Norman Jones QC, Assistant Commissioner from the Office of Surveillance Commissioners (OSC) on the council's arrangements for the use of powers under the Regulation of Investigatory

Powers Act 2000 (RIPA). There were five recommendations in the report for which an action plan had been put in place.

The Cabinet Member Corporate Services wished to put on record his thanks to the Governance, Risk and Compliance Officer for his role in achieving this positive outcome. The Chair made particular reference to paragraphs 18 and 30 of the inspector's report and reiterated the thanks of the Cabinet Member.

Upon a vote it was unanimously,

**RESOLVED that;**

- 1. The findings and recommendations within the OSC report following the inspection on the 26<sup>th</sup> July 2013 regarding the Council's arrangements for the use of RIPA be noted.**
- 2. The action plan to deliver changes required to meet the Assistant Commissioner's recommendations be agreed.**
- 3. It be recommended to Cabinet that it agrees the revised RIPA guidance.**

**12. WORK PROGRAMME**

The Cabinet Member Leisure & Culture suggested that the Leisure and Culture Trust be added to the work programme for March 2014, i.e. once its governance had been defined. This was agreed by Members.

**13. LOCAL GOVERNMENT ACT 1972-EXEMPT BUSINESS**

**14. ICT NETWORK ISSUE**

Members discussed the issue and

**Resolved**

- 1. To monitor the situation closely**
- 2. That should the Council not meet its deadline, the Chair and Vice Chair of Audit Committee should meet with the Chair and Vice Chair of Overview and Scrutiny to consider how to proceed. The Cabinet Member Corporate Services should also be involved.**

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

None

**16. DATE OF NEXT MEETING**

15 January 2014

Paul Massey  
**Chairman**

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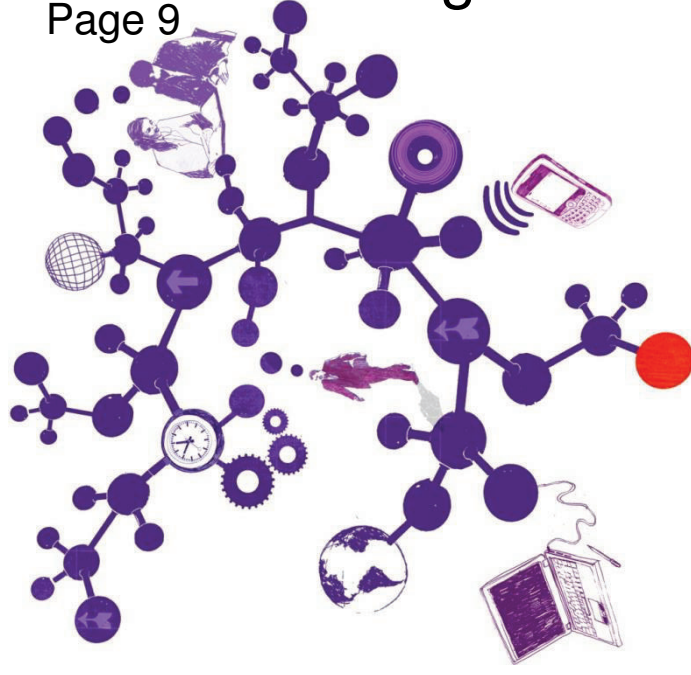
# Audit Committee briefing note for Cheltenham Borough Council

**Year ended 31 March 2014**  
4 December 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a District Council

A number of possible challenge questions members could ask relating to these national issues and developments has been provided to management who will report their responses to the next Audit Committee.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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# Progress at 4 December 2013

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b>            We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	<p>April 2014</p>	<p>Not due yet</p>	
<p><b>Interim accounts audit</b>            Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	<p>January 2014-            March 2014</p>	<p>Not due yet</p>	
<p><b>2013-14 final accounts audit</b>            Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> </ul>	<p>July 2014 to            September 2014</p>	<p>Not due yet</p>	

# Progress at 4 December 2013

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>                      The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• a initial risk assessment;</li> <li>• a detailed review of arrangements against the criteria;</li> <li>• bringing forward knowledge from previous year;</li> <li>• reviewing key documents; and</li> <li>• discussion with officers.</li> </ul>	September 2014	Not due yet	
<p><b>Certification work</b>                      Auditing Grant claims and returns</p>	June 2014 – October 2014	Not due yet	
<p><b>Annual Audit Letter</b>                      Summary of work undertaken in the year</p>	October 2014	Not due yet	

# Emerging issues and developments

## Local government guidance

### Income from charging

In September, the Audit Commission published 'Income from charging: Using data from the VFM Profiles, September 2013'. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils' overall service expenditure, and 20 per cent of district councils nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no 'one-size-fits-all' formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils' strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

# Emerging issues and developments

## Local government guidance

### Voluntary Code of Practice on the Housing Revenue Account

In October, CIPFA and the Chartered Institute of Housing (CIH) issued the 'Voluntary Code for a Self-financed Housing Revenue Account'.

The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA.

This code is designed to be self-regulatory and compliance is not formally required.

# Emerging issues and developments

## Local government guidance

### Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

# Emerging issues and developments

## Local government guidance

### Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The Integration Transformation Fund statement, signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two year plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

# Emerging issues and developments

## Grant Thornton

### Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Accounting and audit issues

### Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in Room 151, the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.



# Emerging issues and developments

## Accounting and audit issues

### Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

# Emerging issues and developments

## Accounting and audit issues

### Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

# Emerging issues and developments

## Accounting and audit issues

### Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.



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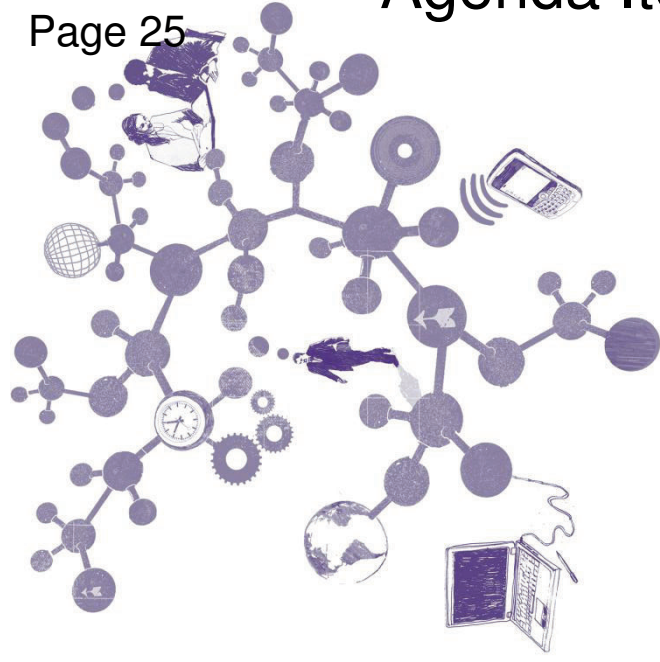
# The Annual Audit Letter for Cheltenham Borough Council

**Year ended 31 March 2013**

11 October 2013

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A Reports issued and fees

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## Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

The Council has met the financial challenges of reduced funding well, but these now look set to continue for several years.

# Executive summary

## Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Cheltenham Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- Value for money - assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 25 September 2013.

## Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 22 April 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we have certified two grant claims and returns, one of which was certified with an amendment and none were qualified. No issues have been identified from our work to date. Our audit of the Housing and Council Tax Benefit claim is on-going. The detailed findings from our work will be reported in our grant certification report.



# Executive Summary

## **Key areas for Council attention**

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council's accounts were, for the first time, prepared by Go Shared Services (GOSS) under the new shared service arrangement. We identified no material errors in the draft accounts. It was also the first year of our audit appointment. As expected some teething problems were encountered which made the audit process difficult to complete within our planned deadlines. However, we will work with the Council and GOSS to help make the process smoother in future.

The Council continues to operate in a difficult financial climate. Indications are that public sector spending will continue to be subdued for several years, with the government setting a target of achieving a budget surplus in the next parliament. This may well lead to further reductions in government funding for local authorities.

Our Value for Money work concluded that the Council has sound arrangements in place to plan its finances over the next five years. The Medium Term Financial Strategy 2012/13 to 2017/18 incorporates financial forecasts, budget gaps and savings plans to bridge the gaps. Given that future budget predictions are subject to uncertainty, officers and members will need to continue working effectively and proactively together to manage the risks the Council faces and to bridge any funding gaps identified.

Nevertheless, the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively.

## **Acknowledgements**

This Letter has been agreed with the Director of Resources and will be presented to Audit Committee on 15 January 2014.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
October 2013

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## Section 2: Audit of the accounts

01. Executive summary

**02. Audit of the accounts**

03. Value for Money

04. Certification of grant claims and returns

Our audit of your accounts went well and we were able to issue an unqualified opinion and Value for Money Conclusion by the 30 September deadline.

# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below:

### **Preparation of the accounts**

The Council produces its signed accounts on 29 June 2013 in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 8 July 2013.

### **Issues arising from the audit of the accounts**

We identified no material errors in the accounts. We did however, identify 2 non material errors. The Council amended the accounts to reduce the value of debtors and creditors as a result of incorrect grossing up but decided not to adjust the accounts to include Civic Regalia within heritage assets this year, but these will be included in future accounts. In addition, a small number of adjustments and changes were made to enhance disclosures in the accounts.

### **Annual governance statement**

The Council has in place a thorough and robust process to produce the annual governance statement. The statement was consistent with our knowledge of the Council and complaint with guidance issued by CIPFA.

## **Conclusion**

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified qualified opinion on the Council's 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council

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## Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

**03. Value for Money**

04. Certification of grant claims and returns

We were able to provide an unqualified Value for Money Conclusion. We identified that, whilst the Council faces challenges, particularly in 2013/14 and 2014/15, its current arrangements for securing financial resilience are good.

# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that, whilst the Council faces challenges, particularly in 2013/14 and 2014/15, its current arrangements for securing financial resilience are good.

Further details are provided in our Financial Resilience report issued in September 2013.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work concentrated on the council's achievement of its £480k savings plan for 2012/13 and its plans for delivering further savings of £3.299m over the next five years.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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## Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

**04. Certification of grant claims and returns**

We have completed our work on the Business Rates and Pooling of Housing Capital Receipts grant claims. Both were certified by the relevant deadline, and without amendment. Our work on the Housing and Council Tax Benefit claims continues

# Certification of grant claims and returns

## Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified two **claims** and returns Business Rates and Pooling of Housing Capital Receipts grant claims for the financial year 2012/13 relating to expenditure of £52.6 million. Our work on Housing and Council Tax Benefit continues.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

The key messages from our certification work are summarised in the table below. Further details will be provided in our certification report which will be issued in January 2014.

## Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	Both claims submitted by the relevant deadline. One claim certified with an amendment.	●
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	One claim (Pooling of Housing Capital Receipts) certified with an amendment but was unqualified.. One claim (National Non Domestic Rates) was certified without amendment or qualification.	●
<b>Supporting working papers</b>	Working papers have been of a good standard.	●

# Appendices



# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

	Per Audit plan	Actual fees
	£	£
Audit Fee	64,974	64,974
Grant certification fee	12,750	12,750
<b>Total fees</b>	<b>77,724</b>	<b>77,724</b>

We have not yet completed our grant certification work. We will report the final fee in our Grant Certification Report.

## Fees for other services

Service	Fees £
None	Nil

## Reports issued

Report	Date issued
Audit Plan	April 2013
Audit Findings Report	September 2013
Certification report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013



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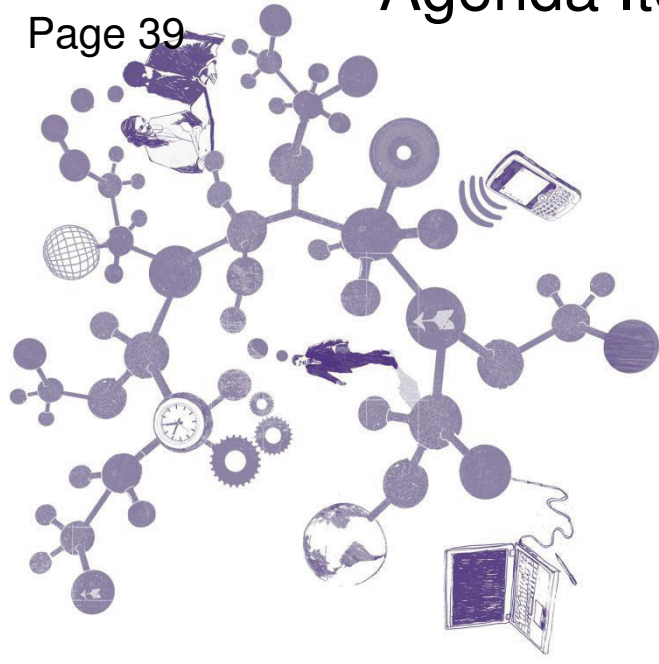
# Certification report 2012/13 for Cheltenham Borough Council

**Year ended 31 March 2013**

13th December 2013

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# Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Cheltenham Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £92.9 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in September 2013.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	All 3 claims/returns were received from the Council before the submission deadline All 3 claims/returns were certified before the certification deadline	●
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	The NNDR Claim was certified without amendment or qualification The Housing Benefit Claim was amended by £943, and a qualification letter was submitted to the DWP The Pooling of Housing Capital receipts return was amended by £18,750	●
<b>Supporting working papers</b>	The working papers supporting NNDR and Housing Benefits were of a good quality Improvements can be made to the Housing Pooled return working papers. See recommendations in Appendix B	●

## **The way forward**

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

## **Acknowledgements**

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**December 2013**

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work



# Results of our certification work

## Key messages

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £92.9 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target		Achievement in 2012/13		Achievement in 2011/12		Direction of travel
	No.	%	No.	%	No.	%	
Claims submitted on time	3	100%	3	100	4	100	↕
Claims certified on time	3	100%	3	100	4	100	↕
Claims certified without amendment	1	100%	1	33.3	4	100	➔
Claims certified without qualification	2	100%	2	66.6	3	75	➔

This analysis of performance shows that:

- One claim (Housing Benefits) was qualified in 2012/13. It is not unusual for this to be qualified, due to the complexity of the return and the requirement of how auditors report issues identified. The number of issues identified has increased from one issue in 2011/12 to five in 2012/13. All of the errors identified were one off errors identified from the initial testing undertaken. This indicates that there are no significant issue with the payment of Housing Benefits to claimants. At the time of preparing this report the DWP have not asked for further clarification or additional work to be undertaken on the issues reported.
- As can be seen on Appendix A amendments were made to both the Housing Benefit claim and the Pooling of Housing Capital Receipts return for 2012/13, although these were not significant compared to the overall value of the returns. The amendment to the Pooling return increased the money payable to the council. Neither amendment raised concerns that the council has ineffective processes for recording or monitoring grant payments.

Details of the certification of all claims and returns are included at Appendix A.

# Results of our certification work cont

## Significant findings

Our work has not identified significant issues with the management arrangements and certification of individual grant claims and returns.

However we have made recommendations to further improve arrangements in respect of two of the claims:

- **Housing Benefits**
  - Implement a process to check allocation of subsidy to Non HRA cases
  - Investigate the reason why CIVICA system understated subsidy by not correctly offsetting under and overpayments
- **Pooling of Housing Capital Receipts**
  - Provide the supporting evidence of all HRA sales in the year as part of the working paper pack which is evidenced as reconciled to the financial ledger
  - Include all supporting working papers in the working paper pack, which are reconciled to the return.
  - Include evidence that the claim has been reviewed and that all working papers are included

Recommendations for improvement are included in the action plan at Appendix B

## Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £12,750.

Fee variations are required to be approved by the Audit Commission and discussed and agreed with the client. A variation would only be considered appropriate by the Audit Commission if it was due to additional work being required to be undertaken.

Two fee variations have been requested in respect for the 2012/13 certification work i.e.

- A variation in respect of the Housing Pooled Capital Receipts return, as the current year audit required a full audit (Parts A and B testing). In 2010/11 only a high level review was required (Part A testing).
- A variation in respect of the Housing Benefit claim, as the current year required 55 additional 40+ samples (153 cases) to be tested due to the issues raised. The additional work is required by the audit approach to Housing Benefits and was necessary as a result of errors identified in our initial samples. In 2011/12 only additional sample was required.

The fee variation in respect of Housing Pooled Capital receipts of £,692 was approved by the Audit Commission, and officers have agreed to pay the additional fee.

We are currently in discussions with officers over the proposed fee variation in respect of the Housing Benefit claim

The final fee variation for certification of claims and returns will be agreed with officers and then will need to be approved by the Audit Commission before any additional charge is billed..

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment	Qualified?
Housing Benefits Subsidy claim	£40,255,989	Yes	£943	Yes
National Non Domestic Rates claim	£51,217,310	No	No	No
Pooling of Housing Capital Receipts return	£1,382,546	Yes	(£18,750)	No

# Appendix B: Action plan

**Priority**

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Implement a process to check allocation of subsidy to Non HRA cases.	Medium	Agreed to check every Non HRA claim prior to completion of subsidy claim	Year end 2013/14 Paul Aldridge
2	Investigate the reason why the CIVICA system understated subsidy by not correctly offsetting under and overpayments	Medium	Agreed to refer claim to CIVICA as a subsidy fault and await a response	December 2013 Paul Aldridge
3	Provide the supporting evidence of all HRA sales in the year as part of the working paper pack which is evidenced as reconciled to the Ledger	Medium	All emails regarding RTB sales are now being saved as supporting evidence. The spreadsheet supplied by One Legal will also be used as a supporting document for each quarter return and the final year end return.	August 2013 Andrew Sherbourne & Robert Dagger
4	Include all supporting working papers in the working paper pack, which are all reconciled to the return.	Medium	Agreed – to be copied from the on-going file to the year end file	Year end 2013/14 Andrew Sherbourne & Robert Dagger
5	Include evidence that the claim has been reviewed and that all working papers are included	Low	Agreed- each quarter claims will be signed off by the person completing the return and certifying it.	Year end 2013/14 Andrew Sherbourne & Robert Dagger



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## Cheltenham Borough Council

### Audit Committee – 15<sup>th</sup> January 2014

#### Internal Audit Monitoring Report

<b>Accountable member</b>	<b>Cabinet Member Corporate Services, Councillor Jon Walklett</b>
<b>Accountable officer</b>	<b>Head of Audit Cotswolds – Robert Milford</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>The council must ensure that it has sound systems of internal control that facilitate the effective management of all the council's functions. The work delivered 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.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report however is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
<b>Recommendations</b>	<b>The Audit Committee considers the report and makes comment on its content as necessary</b>

<b>Financial implications</b>	<p><i>There are no direct financial implications arising from this report.</i></p> <p><b>Contact officer: Mark Sheldon, Chief Finance Officer</b>  <b>mark.sheldon@cheltenham.gov.uk,</b>  <b>01242 264123</b></p>
<b>Legal implications</b>	<p><i>There are no direct legal implications arising from this report.</i></p> <p><b>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</b></p>
<b>HR implications (including learning and organisational development)</b>	<p><i>No additional HR implications arising from this report.</i></p> <p><b>Contact officer: Julie McCarthy, HR Operations Manager</b>  <b>julie.mccarthy@cheltenham.gov.uk,</b>  <b>01242 26 4355</b></p>
<b>Key risks</b>	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>

<b>Corporate and community plan Implications</b>	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i> (Chartered Institute of Internal Auditing UK &amp; Ireland).</p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
<b>Environmental and climate change implications</b>	<p>One of the specialist skills now provided by the service is that of environmental auditing. This would therefore aid the Council in its environmental and climate change objectives.</p>

## 1. Background

- 1.1 The Annual Audit Plan was aligned with the corporate and service risks facing the Council as identified in consultation with the Senior Leadership Team and supported by such systems as the risk registers. At the time of preparing the 2013/14 plan, the Councils Corporate Strategy 2010-2015 was being reviewed and, as internal audit is there to help the organisation to achieve objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the recently prepared Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.
- 1.2 There is also a requirement to support the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 1.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

## 2. Reasons for recommendations

- 2.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Shared Services impacting on core financial systems and shared services generally impacting on core governance arrangements, etc.
- 2.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to keep to a more flexible and risk based plan.
- 2.3 It should also be recognised that the service is a partnership so coordinating resources across multiple organisations is critical to the success of the partnership.
- 2.4 This report highlights the work completed by internal audit and provides comment on the assurances provided by this work.

## 3. Internal Audit Output

- 3.1 The internal audit service is in the process of reviewing its operational procedures and processes to align with the new Public Sector Internal Audit Standards (PSIAS). Furthermore, the service is reviewing its structure to ensure it is appropriately resourced and skilled for future work expectations.



3.2 Internal Audit has concluded the following audits:

<b>Audit</b>	<b>Report status</b>	<b>Assurance</b>
Commissioning - Leisure & Culture	Consultancy	N/A
ICT ~ PSN Compliance Review	Final	N/A
Commissioning – Ubico Contract Monitoring	Final	Satisfactory
Cash Receipting	Final	Satisfactory
Car Parking	Final	Limited
Health & Safety	Interim	
Bridging the Gap	Draft	
Art Gallery & Museum Project Review	Ongoing	
Council Tax	Ongoing	
NNDR	Ongoing	
Benefits	Ongoing	
Corporate Strategy	Ongoing	
Transparency Agenda	Ongoing	

3.3 Audit Cotswolds has also undertaken the following:

- Audit provision for GO Shared Service
- Audit provision for Ubico Ltd
- Audit Provision for Cheltenham Borough Homes

- 3.5 The level of involvement the internal audit service has within the Cheltenham Borough Council change programmes is substantial but it is considered necessary when there is such a high level of risk with such significant changes being introduced. This is in line with the audit plan for 2013/14.
- 3.6 Further consultancy work was undertaken in relation to Counter Fraud. Internal Audit has a significant role in counter fraud work and as such the Head of Audit Cotswolds has been working with the Benefit Fraud Team at Cheltenham BC and other partner Councils to develop a more coordinated and proactive approach to counter fraud.
- 3.7 Follow-up on the ICT Virus report has been superseded by the PSN review work and some ongoing ICT Audit consultancy. This impacted substantially on the 2013-14 plan and as such the 2014-15 plan will include some deferred work from this year's plan. A copy of the Summary PSN Report has been attached at the end of Appendix 1.

<b>Report author</b>	<b>Robert Milford, Head of Audit Cotswolds, 01242 775174, Robert.milford@cheltenham.gov.uk</b>
<b>Appendices</b>	<b>Appendix 1 – Monitoring Report</b>
<b>Background information</b>	<b>None</b>

## Internal Audit Monitoring Report

Audit	Report status	Assurance
<b>Commissioning – Ubico Contract Monitoring</b>	<b>Final</b>	<b>Satisfactory</b>
<p>Overview and Key Findings</p> <p>Ubico is a local authority company limited by shares. Current shareholders are Cheltenham Borough Council and Cotswold District Council. It was created to deliver a range of complementary and integrated environmental services - primarily waste collection, street cleaning, green space and fleet management. Standards of service are specified in the contract between Cheltenham Borough Council and Ubico.</p> <p>The purpose of this review has been to establish that appropriate procedures are in place to monitor delivery of the contract by Ubico; to test that performance data provided by Ubico is accurate; to highlight any gaps in services provided to residents and to ensure that service budget savings identified in the bridging the gap process are delivered.</p> <p>With effect from 1st April 2013 a Gloucestershire Joint Waste Committee (GJWC) was established between the County Council and 3 district councils (including Cheltenham) to help deliver more efficient waste services by considering waste collection and disposal as a single system. It has been given delegated powers to make decisions concerning recycling, waste collection and street cleaning services. Amongst other things officers of the GJWC have taken on a monitoring, co-ordination and delivery improvement role for service delivery on these aspects of the Ubico contract and so reliance is placed on the GJWC, with appropriate overview from the Council, to monitor contract delivery.</p> <p>Processes and procedures have been established by the Council (and the GJWC) to monitor delivery of the Ubico contract. These are discussed in the body of the report. Procedures put in place are considered appropriate to monitor delivery of the contract.</p> <p>Some teething issues have been identified in the report with appropriate recommendations but officers are largely aware of these and progress is being made to resolve them. Ubico have been slow in providing full performance data as required under the terms of the contract but this should now have resolved itself as a performance analyst has recently been appointed by Ubico, part of whose responsibility will be the production of data to appropriate timescales. There have been concerns over alignment of the budgets on waste management but these are being progressed.</p> <p>Some recommendations are made in the report for consideration but these are not significant enough to affect the audit opinion given. Recommendations include checking the accuracy of performance data provided by Ubico (no checks have been undertaken) to ensure accurate information is provided; reviewing of performance indicators required under the contract to ensure they remain relevant and are used appropriately by the Council; reviewing procedures for relevant operational issues that arise to see they are handled as efficiently as possible; and considering if</p>		

information on monitoring work undertaken by the GJWC should be requested.

One further issue identified relates to the risk associated with Ubico's Waste and Recycling Manager. The officer will commence maternity leave in December and the Council should seek assurance that Ubico have appropriate arrangements in place to cover this key post in her absence.

**Management Response**

The report is welcomed as it has highlighted a number of issues with the current contract management arrangements. Given new roles and responsibilities arising from the establishment of Ubico and the Joint Waste Committee (joint waste team), it was inevitable that there would be teething problems. We are pleased with the performance of Ubico but we were already aware that there were some issues with the way in which we were reviewing performance. This report highlights the key issues and provides a useful framework as part of our ongoing dialogue with both Ubico and the joint waste team. The issues identified within the action plan are not major and we anticipate that by the end of the financial year the necessary actions will be put in place.

<b>Cash Receipting</b>	<b>Final</b>	<b>Satisfactory</b>
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**Overview and Key Findings**

The objective of this audit is to provide management with independent assurance that adequate and effective internal controls and procedures are operating in respect of cash receipting services. It is also to ensure that the processes in place meet the requirement of internal policy and procedural standards and to ensure that processes are meeting external codes of practice, professional good practice and appropriate regulation.

Cheltenham Borough Council (CBC) uses CIVICA as its corporate cash receipting system. A new web hosted version of CIVICA went live on 16<sup>th</sup> January 2013 after wide-ranging testing following a developed testing plan. With any major system change, there is a risk that the implemented modifications will have a knock-on effect on other integrated systems.

In this case, not all files were being exported from CIVICA correctly. This meant that all payments were not being loaded into the Planning and Car Parking systems resulting in delays in processing planning applications and erroneous "Notice to Owner" letters being produced. This issue came to light a month later when agents contacted the Council to query the progress of their planning application and customers rang asking why they had received letters chasing payment for parking offences which had been paid.

Audit were able to assist Planning and Car Parking with the production of reports from CIVICA to identify these payments and in the case of Car Parking, to devise a manual, daily working procedure to ensure that further notices were not issued where payments had been received. During the course of the audit, the matter was resolved with Parking and Planning receiving payments from all payment channels.

Regular reconciliation of income is crucial to ensure that all payments have been received and any discrepancies are identified promptly. Some of the business areas examined do not reconcile payments on their business systems to CIVICA on a daily

basis and in addition have not been performing regular reconciliations to ABW contrary to CBC's financial rules. In the above example a quick daily reconciliation to CIVICA would have identified the missing payments in addition to facilitating monthly income reconciliations to ABW.

Revised money laundering regulations came into effect in December 2007 and the Authority is required to ascertain a level of risk to money laundering in individual situations. The main aims of the regulations are to identify suspicious transactions and if a customer comes under investigation, that the Council can provide a precise audit trail. Through discussion with staff it was found that CBC's Money Laundering Policy has not been formally communicated to staff and as a result, not all staff with cash handling responsibilities are aware of the regulations and how they affect them.

The CIVICA system allows the provision of various payment channels and through this, greater flexibility for customers to pay. Multiple funds and methods of payments allow monies to be receipted accurately as well as providing a global analysis of payments made providing valuable information on payments trends. With the agreement of Civica, Cheltenham Borough Homes are also utilising the system to process payments for the CBH owned properties. As the system only produces one bank file, this means that the payments for CBH properties, which are identifiable as they have their own fund, subsequently have to be manually allocated to the CBH bank account. The scope for miss-posting errors occurring is minor as there are less than 100 of this type of property.

Cheltenham Borough Homes want to allow the tenants of Cheltenham Borough Homes properties to pay on-line. However, there is an issue at present whereby if a multiple payment is made, one of which is rent for a Cheltenham Borough Homes property and one is for a Cheltenham Borough Council charge, e.g. Council Tax, if it is processed as one transaction and will default to one merchant number only and which means that part of the payment will be detailed incorrectly on the customers bank statement. On a face-to-face basis this is managed by the cashiers who undertake two separate transactions. However, as customers are unlikely to undertake separate payments when paying for multiple services, the option to pay rent for Cheltenham Borough Homes properties online, is not being made available. Civica have been asked to provide a quote for a solution. Note this issue only relates to CBH owned properties and not to the Council's housing stock, the rent for which can be paid for on-line.

The Financial Rules state that budget holders are responsible for "*securing all income to safeguard against loss or theft and ensuring the security of cash handling*". Whilst procedures and processes in place minimise this risk, cheques received for the Planning Service are not immediately taken to cashiers for receipting. They are taken to the service area where they are manually receipted onto their business system beforehand which increases the chance of them being mislaid.

The roles of CBC's Income Collectors have changed since the new arrangement with APCOA who now have full responsibility for on-street parking. The Income Collectors now have maintenance responsibilities for the retained off-street parking machines in addition to their normal collections. This could cause an issue with segregation of duties however; there is a full audit trail of machine activities available which, if compared with approved fixes and modifications, would identify any unauthorised alterations.

Physical access to the cash halls is secure with access controlled via keypad or key stored in a secure key safe. Safes are kept out of the view of the public and insurance limits on amounts held are sufficient with safes used to store car park collections increased over bank holiday weekends. Insurance arrangements covering the collection, safekeeping and movement of monies was also adequate.

During testing, Audit found that there was one user of the CIVICA system who was no

longer employed by CBC or CBH. ICT confirmed that this user still had access to CBC's ICT network. Effective systems administration ensures that all users are set up with relevant access rights and users no longer needing access are removed. The CIVICA system is used by multiple service areas and it may not always be known by the CIVICA systems administrators that a member of staff has left. It is crucial that user access is reviewed on a regular basis to ensure that access is still required.

Compliance with PCI DSS (Payment Card Industry Data Security Standards) is essential for organisations taking credit and debit card payments. The CIVICA system version in use is compliant and the Customer and Support Services Manager ensures that a form is completed and signed by all Service Managers where the CIVICA system is used ensuring that they have security controls and processes in place to cover PCI DSS obligations.

Audit testing also covered the inspection of receipts given to customers for cash, cheque and card payments made at the offices and via the telephone and website. All were found to contain accurate and appropriate payment information. However, manual receipts being issued by the depot for some payments were not from an official, sequentially numbered receipt book.

The last internal audit report on Cash Receipting in September 2011 identified inconsistencies in the Council's approach to the application of credit card charges. The recommendation was to develop and implement a Credit Card Charging Policy which would ensure a consistent approach. A corporate policy has not yet been produced and testing has found that the inconsistencies in charge applications continue.

With regard to payments from petty cash, the Financial Rules clearly state that "*Payments from any such account shall be limited to minor individual items of expenditure up to a maximum of £50*". On examination of the reimbursements made a number of those exceeding the £50 limit are for the purchase of staff uniforms. It is essential that the Financial Rules are followed to ensure that payments made are for minor items of expenditure and do not exceed the £50 limit without the express permission of the Section 151 Officer. The testing also found 2 that contained amounts relating to travelling and subsistence which should not be paid out of petty cash accounts

**Management Response**

Findings and recommendations agreed

Car Parking	Final	Limited
<p><b>Overview and Key Findings</b></p> <p>The review of Car Parking was conducted in accordance with the 2013/2014 Audit Plan as approved by the Audit Committee in March 2013. The main objectives of the audit were focussed on:</p> <ul style="list-style-type: none"> <li>• Operational, performance and risk management examining the internal controls in operation.</li> <li>• Processes are meeting the requirements of internal policy, procedural standards and targets.</li> <li>• Processes are meeting external codes of practice, professional good practice such as the British Parking Association's Code of Good Practice and statutory regulations</li> </ul>		

as laid out in the Traffic Management Act 2004.

- To review service method and delivery arrangements.
- Regent Arcade management including the use of Automatic Number Plate Recognition (ANPR) and enforcement.

Whilst Audit have looked at various areas, it has not been an exhaustive review and not all of the areas outlined in the brief have been covered. Audit would advise management to examine matters not included within the review.

Key legislation that regulates Car Parking by an Authority is the Road Traffic regulation Act 1984, the Traffic Management Act 2004 and the Civil Enforcement of Parking Contraventions (England).

The Car Parking service has been through a significant period of change with the transfer of on-street parking to APCOA and the retained off-street element moving to form part of the Public Protection service. This saw a reduction in resources and the loss of skilled car parking employees.

From audit testing and observation there are areas that require further progression and development:

#### Regent Arcade

- Formal review of the Regent Arcade project to include contract provisions and an assessment of the achievement of financial objectives.
- Enforcement of non-payment of parking fees. Current figures supplied of an average of 30 per day based on a stay of up to 3 hours would equate to a shortfall of £47,085 in a year. Confirmation is also required from Parkeon on which motorists are detected as non-payers.
- Other items left outstanding at the closedown of the Regent Arcade project.
- A review and update of Cheltenham Borough Council's Data Protection entry to encompass the use of ANPR technology.
- CCTV technology in car parks and the use of evidence from this for parking tribunal hearings and insurance claims.
- Adequacy, amount and positioning of car park signage.
- The quality of data obtained and the enforcement of non-payment for parking.
- Management, control and review of the "whitelist" and Blue Badge administration to include analysis of potential loss of income. Current figures show over 6000 whitelist entries entitled to free parking.
- Reconciliation of income from all payment channels and analysis of variances.
- Business continuity procedures in the event of full or partial system failure.

#### General

- Penalty Charge Notice wording review to ensure conformity with legislation in view of

recent parking adjudicator decisions.

- Procedures covering the waiving of PCN's ensuring compliance with Financial Rules.
- Insurance arrangements.
- Consistency and placement of signage.
- Issue, renewal, control and enforcement of permits.
- Reconciliation process and procedures for all car park income.
- Regular management reporting of car park income and key service performance indicators.
- Review of resources to ensure resilience of service provision.

The service is still in a period of transition following the transfer of Car Parking to Public Protection, the effect of resource changes to the retained off-street provision and residual, unresolved matters from the Regent Arcade project. A temporary project manager has recently been appointed in order to support progress on identified actions and to ensure that the operation and delivery of the car parking service is fit for purpose.

The overall conclusion is that the current assurance level for the service is "limited" but that work has commenced to tackle the issues that have been identified.

### **Management Response**

Having recently acquired off street car parking this review was requested as an early intervention. The review challenged the service in great depth both strategically and operationally and has proved extremely beneficial as a comparator against the many issues we, as Heads of Service, have identified and which need addressing. We have worked diligently and taken swift action to address many of the items listed and will continue to work through our own comprehensive action plan to ensure we conclude with a service which is fit for purpose.



*This Internal Audit report summary for Audit Committee has already been presented in a report for the Scrutiny Task Group ~ ICT Review held on the 18<sup>th</sup> December 2013.*

## **Internal Audit Review of the Completion, Responses and Evidence to Support the PSN Submission**

### **Background**

1. As part of the documentation set issued by the Cabinet Office regarding PSN there was a document relating to the “zero tolerance” approach to the PSN Code of Connection. No remedial action plans or weak compliance positions would be allowed and assessment would be made to be either compliant or rejected.
2. By the time internal audit was asked to conduct this review, two full assessments had been conducted, both of which had asked for evidence of the risk assessment method in operation at the Council. RIS.1 *“Information Risk Management: The connecting organisation shall demonstrate a risk management and standards-based approach to the assurance of their connected network”*, was the condition that the Cabinet Office rejected previous submissions. Cheltenham Borough Council (CBC) declared that they had a *“corporate process that is based around CESG IAS 1 & 2”*. However, the evidence supplied related to CBC’s corporate risk register, risk management policy and ICT programme risk logs but these did not address the issue of information risk in the required format based on or around Information Assurance Standards 1 & 2 (IAS 1&2).
3. CBC subsequently engaged an independent, CESG approved security consultant to ensure that the Council complies with information risk management in accordance with IAS 1&2. However, the uncertainty surrounding the responses supplied in relation to information risk management created an element of doubt within the Cabinet Office on the integrity of the rest of the submission made by CBC.
4. The submission is a substantial range of questions (38 areas with multiple questions in each area), although not all were relevant to CBC.

### **Audit Objective & Process**

5. The internal audit brief surrounded the evaluation of the evidence available to substantiate the “Supporting Evidence” statements made on CBC’s PSN Code of Connection (CoCo) submission. The methodology used was to take the guidance available from the Cabinet Office to assist in the PSN CoCo Submission completion and use this as a basis to test the CBC submission responses. In particular, we have used the sample of a completed Annex B which is produced in order for Local Authorities to aid their CoCo submission.
6. Details of the guidance provided can be found at <https://www.gov.uk/public-services-network>
7. The levels of evidence being requested were – as an example – where CBC state that users requesting the use of a USB memory stick will need to submit

a business case – we looked to see the business case and the process in place to ensure the correct authorisation channels were followed. We have also conducted our own testing as a system user by checking processes are in place when connecting via CBC’s wireless network and working from home as well as trying to amend PC anti-virus protection settings. We also checked that the IT Health Check was conducted by a company in one of the CESG recommended schemes and the output from these contained the recommended content to support CBC’s submission.

8. Table 1 sets out internal audit’s review of CBC’s CoCo submission responses where we were not able to initially confirm the response given and requested further evidence. On receipt of the evidence the question was then RAG rated to show where the control meets expectation (Green), partially met (Amber) or not met (Red) and includes a note where action is required by management.

Table 1

Area and question	RAG rating	Action required
Incident Response		
RES. 3	G	No
Configuration		
CON. 1	A	Yes
CON. 3	G	No
CON. 4	A	Yes
CON. 5	A	Yes
CON. 6	G	No
Compliance Checking		
CHE. 1	G	No
Patch Management		
PAT. 1	A	Yes
PAT. 2	G	No
Access Control		
ACC. 1	A	Yes
ACC. 2	A	Yes
Boundary Controls/Gateways		
BOU. 1	G	No

BOU. 6	G	No
Removeable Media		
MED. 1	A	Yes
Mobile / Home Working		
MOB. 1	A	Yes
Protective Monitoring		
PRO. 3	G	No
Email		
EMA. 1	G	No
Framework		
FRA. 2	G	No
Incident Management		
INC. 3	G	No
INC. 7	G	No

### **Summary**

9. Internal audit gathered evidence to substantiate CBC's PSN CoCo submission statements. Where possible, internal audit also performed physical tests to ensure the information supplied was accurate. Internal audit have not found any instances of deliberately misleading information being provided however, submission responses needed to clearly reflect the working practices of the Authority at the time of the submission.
  
10. The IT consultant that assisted ICT with the issues surrounding information risk used the matters identified within the internal audit report to form part of the work completed prior to the new PSN CoCo submission. Internal audit will monitor the implementation of management responses and test where appropriate as set out in the terms of reference for the Security Working Group.

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**Cheltenham Borough Council  
Audit Committee – 15 January 2014  
Risk Management Policy - review process for 2014**

<b>Accountable member</b>	Cabinet Member Corporate Services, Councillor Jon Walklett
<b>Accountable officer</b>	Director of Resources, Mark Sheldon
<b>Ward(s) affected</b>	None
<b>Key Decision</b>	Yes/No
<b>Executive summary</b>	<p>The Audit Committee approved the current Risk Management Policy in March 2013 this will be due for a further review in April 2014.</p> <p>At the full Council meeting on the 7 October 2013 during the debate on the ICT PSN issue, there was a request that the Risk Management Policy and Risk scorecard should be reviewed.</p> <p>The ICT Scrutiny working group considered this request on the 18 December and supports a wider approach to the 2014 review.</p>
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. To agree a wider approach to the review of the Risk Management Policy for 2014</li> <li>2. To make any additional recommendations to strengthen the review process.</li> </ol>

<b>Financial implications</b>	<p>The identification and assessment of financial risk is a key element in the process of managing the Council's financial exposure. The scorecard ensures a consistent approach and transparent methodology for assessing financial risk.</p> <p>Contact officer: Mark Sheldon</p> <p>Email: mark.sheldon@cheltenham.gov.uk</p> <p>Tel: 01242 264123</p>
<b>Legal implications</b>	<p>None directly arising from this report</p> <p><b>Contact officer: Sara Freckleton, Borough Solicitor</b></p> <p><b>Tel; 01684 272011</b></p> <p><b>sara.freckleton@tewkesbury.gov.uk,</b></p>

<b>HR implications (including learning and organisational development)</b>	No direct HR implications in this report. Contact officer: Donna Sheffield Email: donna.sheffield@cheltenham.gov.uk Tel: 01242 774972
<b>Key risks</b>	The lack of a robust approach to the management of risks and opportunities could result in ill-informed decision-making and non-achievement of the Council's aims and objectives, at both a strategic and service level.
<b>Corporate and community plan Implications</b>	None
<b>Environmental and climate change implications</b>	None

## 1. Background

- 1.1 Risk management is the culture, process and structures that are directed towards effective management of potential opportunities and threats to the Council achieving its priorities and objectives.
- 1.2 Risk management is a key element of the Council's corporate governance framework. It is one of the six core principles of the Council's Code of Governance - 'taking informed transparent decisions which are subject to effective scrutiny and risk management'.
- 1.3 The issues arising from the ICT PSN accreditation process were reported to full Council on the 7 October 2013, this report was supported by the Corporate Risk Template which had been scored using the agreed methodology. There was a discussion by Members about the scoring methodology and they requested that the policy and method of scoring risks be reviewed.
- 1.4 This risk score for the Council report was considered by the ICT Scrutiny Working Group on the 18 December, officers suggested that because of the wide Member interest on the methodology that a different approach to the 2014 review be undertaken to consider whether the policy and its supporting scorecard could be improved. The Working Group agreed that proposals for this review should be discussed at Audit Committee.

### Risk Management Policy review process 2014

- 1.5 Audit Committee members are asked to consider whether during January 2014 an email should be sent to either all the elected Members or to a more defined group with links to the current Risk Management Policy, the scorecard and to a questionnaire with a series of suggested "Challenge Questions" (Appendix 2). An alternative to this email approach is for a workshop to be arranged.
- 1.6 Elected Members will be asked to consider the scorecard to make any suggestions they feel necessary in relation to each criteria (or for any new criteria) for:-
  - Financial
  - Employee
  - Capacity

- VFM
- H&S and wellbeing
- Business continuity
- Contractual Governance
- Reputation
- Customer satisfaction
- Governance
- Performance forecasting
- Corporate Strategy.

1.7 They will also be asked to consider the ‘Challenge Questions’ against the current Risk Management Policy and to make any suggestions that they consider would improve the application of the policy.

1.8 This information will be collated and reported back to the Audit Committee in March 2014 to determine any amendments to be implemented from April 2014.

## 2. Alternative options considered

2.1 None

## 3. Consultation and feedback

3.1 The Senior Leadership Team and The Corporate Governance Group routinely have been consulted and support the suggested approach to the review.

## 4. Performance management – monitoring and review

4.1 The Senior Leadership Team and The Corporate Governance Group will be briefed on the outcome of the review.

<b>Report author</b>	<b>Contact officer: Bryan Parsons</b> <b>Email: <a href="mailto:bryan.parsons@cheltenham.gov.uk">bryan.parsons@cheltenham.gov.uk</a></b> <b>Tel: 01242 264189</b>
<b>Appendices</b>	1. Risk Assessment 2. Risk Management Policy - Challenge questionnaire

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the Council does not have a robust and effective risk management approach to the management of risks and opportunities then it could result in ill-informed decision-making and non-achievement of the Council's aims and objectives at both a strategic and service level.	Director of Resources	15/01/2014	4	2	8	Reduce	Ensure that the Councils Risk Management Policy is kept up to date and that the processes supporting it are robust and delivered by the decision-makers.	31/3/2014	Corporate Governance, Risk and Compliance Officer	
<p><b>Explanatory notes</b></p> <p><b>Impact</b> – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p><b>Likelihood</b> – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p><b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											



### Reviewing the Cheltenham Borough Council's Risk Governance arrangements

The following questions are designed to help you challenge the effectiveness of the current Risk Governance arrangements and your responses will be considered by the Audit Committee for its 2014 review.

Please be as brief and concise as possible if you feel that the current arrangements are adequate please answer the question with a Yes or if you do not, answer No and explain why.

Leadership		Response
1	Do you consider that the Executive Board / Leadership Team demonstrate leadership in risk management?	
2	Do you know who the lead Cabinet member or member of the Senior Leadership has been identified for risk management?	
3	Do you know if a senior officer is responsible for risk management and if their role is clearly defined?	
4	Do you know if the senior officer responsible for risk management reports directly to the Senior Leadership Team on risk management matters?	
5	Do you consider that the risk governance arrangements are set out clearly in the Risk management Policy and clearly understood?	
<b>Risk governance structures</b>		
6	Do you know who has responsibility for the management of risk within the council?	
7	Is the role of the Senior Leadership Team to advise and support those responsible for risk mitigation or does it have any executive responsibilities to determine risks and their mitigation?	
8	Do you know body is charged with challenging and scrutinising risk management arrangements? Do officers and Members undertake a challenge role?	
9	Do you know who is charged with reviewing the effectiveness of risk mitigation strategies / actions?	
10	Do you consider the role of the audit committee in relation to risk management clear?	
11	Do you consider the risk governance arrangements cover the organisation's partnerships effectively?	
<b>Establishing risk management at the strategic level</b>		
12	Do you consider that strategic risk management has been clearly integrated with the organisation's objectives and performance framework?	
13	Do you consider that the Executive Board/Senior Leadership Team has determined the level of risk it is prepared to accept?	
14	Do you consider that risk tolerance has been communicated effectively and does it influence the management of risk throughout the organisation?	
15	Do you consider that the audit committee have an up to date understanding of the strategic risks facing the organisation?	
16	Do you know what are the arrangements are for embedding risk management within the organisation?	

<b>Accountability and transparency</b>		
17	Do you know how often the effectiveness of risk management arrangements are reviewed?	
18	Do you know who is accountable for the effectiveness of risk management arrangements?	
19	Do you consider that accountability for effective risk management is embedded within the performance framework of the organisation?	
20	Do you know how the organisation accounts to those charged with governance for the effectiveness of risk management arrangements?	
21	Do you consider that the organisation communicates and shares its strategic risks with its major partners and stakeholders?	
22	Do you consider that the organisation is transparent to the public about its major strategic risks?	
23	Are you aware that risk assessments supporting major decisions are made publicly available?	
<b>Risk Score Card</b>		
24	Reports that require a decision are supported by a risk assessment indicating scores for impact and likelihood using the risk scorecard. (The risk score is the multiplication of impact and likelihood.) Do you consider the scorecard to be effective if not can you explain why?	
25	<p>To help assess the impact (effect), we have a scale of 1 to 5; for a number of suggested scenarios;</p> <ul style="list-style-type: none"> <li>• Financial</li> <li>• Employee</li> <li>• Capacity</li> <li>• VFM</li> <li>• H&amp;S and wellbeing</li> <li>• Business continuity</li> <li>• Contractual Governance</li> <li>• Reputation</li> <li>• Customer satisfaction</li> <li>• Governance</li> <li>• Performance forecasting</li> <li>• Corporate Strategy</li> </ul> <p>However at present the score card only has a scale up to level 4 for reputation should there be an additional scale for this and if so what should it be?</p>	
26	To help the risk owner assess the likelihood score (cause), we have identified 6 categories	
	1) Almost impossible	0-5%
	2) Very low	6-15%
	3) Low	16-30%
	4) Moderate	31-60%
	5) High	61-90%
	6) Very high	>90%
		Awareness of risk, no action
		Action to ensure likelihood does not increase
		Preventative action required
		Minimise probability and/or impact
		Minimise probability and/or impact immediately
		Plans made in advance must be carried out.

27	To help the risk owner assess the likelihood score can you suggest any improvements?	
28	Do you have any further suggestions or comments to help improve the Councils Risk Management process?	

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**Cheltenham Borough Council  
Audit Committee – 15 January 2014  
Annual Governance Statement 2011-12,  
Significant Issues Action Plan  
Mid year Review**

<b>Accountable member</b>	<b>Councillor Jon Walklett, Cabinet Member Corporate Services</b>
<b>Accountable officer</b>	<b>Mark Sheldon, Director of Resources</b>
<b>Ward(s) affected</b>	<b>None</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	At the Audit committee meeting in June 2013 it approved the Annual Governance Statement (AGS) for 2012/13 and recommended to Council that it be adopted as part of the statement of accounts.  The AGS contained a Significant Issues Action Plan and this report identifies progress to improve upon these issues.
<b>Recommendations</b>	To note the progress that has been made against the actions and deadlines set, to consider the issues that remain outstanding and the mitigating action being taken.

<b>Financial implications</b>	<b>There are no financial implications arising from this report.</b>  <b>Contact officer: Mark Sheldon – Director of Resources</b>  <b>Email: mark.sheldon@cheltenham.gov.uk, 01242 264123</b>
<b>Legal implications</b>	None specific arising from the recommendation.  <b>Contact officer: peter.lewis@teWKesbury.gov.uk, 01684 295010</b>
<b>HR implications (including learning and organisational development)</b>	No direct HR implications in this report.  <b>Contact officer: Donna Sheffield – HR Business Partner</b>  <b>Email: donna.sheffield@cheltenham.gov.uk, 01242 774972</b>
<b>Key risks</b>	<b>None arising from this report</b>
<b>Corporate and community plan Implications</b>	Good governance helps to deliver the Council's aspirations to be an excellent, efficient and sustainable Council.

<b>Environmental and climate change implications</b>	None
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## 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. Following the review the Council must approve an Annual Governance Statement.
- 1.2 The Annual Governance Statement reflects on the outcome of that review and identifies any significant issues arising from it. The Audit Committee recommended in June 2013 the approval of the AGS, noted the content of the Significant Issues Action Plan and asked for deadlines to be attributed to each of the issues with the intention that they be resolved before the end of the current financial year. The Audit Committee also requested that a progress report be brought back for consideration.

## 2. Progress

- 2.1 The 2012/13 Significant Issues Action Plan (appendix 2) identified 4 issues of concern and these have been monitored and updated by the appropriate officer and reviewed by the Corporate Governance group throughout the year.
- 2.2 The Service Managers have been put in place to Improve Business Continuity testing; the ICT back-up servers have been relocated to Forest of Dean District Council, which has significantly improved our ability to respond to any unplanned event that could affect ICT systems. A series of tests have been planned and successful testing has taken place of the Election Services IT systems both at Forest of Dean District Council and at the Municipal building. Revenue Services and Housing Benefit Systems will be tested next. All Corporate and Service Continuity Plans have been reviewed and refreshed to reflect these new arrangements
- 2.3 Service Managers have indicated that good progress is being made in respect of the issues relating to Safeguarding Children and Vulnerable Adults with new training products being developed and training records being updated, they forecast that the deadline will be met.
- 2.4 There were limited assurance reports issued for key systems within the GO Shared Service. Action Plans to address these weaknesses have been created and progress is being monitored by the Joint Management Liaison Group. Internal Audit will carry out a review before the end of the Financial Year and report back to Audit Committee.
- 2.5 There was an investigation into weaknesses in the control framework in ICT which was reported to Audit Committee. Action Plans to address these weaknesses have been created and progress is being monitored by the Joint Management Liaison Group. Internal Audit will carry out a review before the end of the Financial Year and report back to Audit Committee. They will also take into account the additional recommendations made relating to the PSN CoCo review.
- 2.6 Alternative options considered
- 2.7 None

## 3. Consultation and feedback

- 3.1 With the relevant Service Managers and the Corporate Governance Group.

**4. Performance management – monitoring and review**

**4.1** There will also be progress reviews undertaken by Internal Audit during 2013/14 to provide additional assurance reports to officers and the Audit Committee.

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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Template</li><li>2. Significant Issues Action Plan</li></ol>

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If any weaknesses identified within the AGS SIAP are not addressed then there is a risk that the Councils resources and assets could be put at risk	Director Resources	02/01/2014	3	2	6	Reduce	Service managers to put in place mitigation for each of issues identified by the agreed deadlines	31/03/2014	Corporate Governance, Risk and Compliance officer	
<p><b>Explanatory notes</b></p> <p><b>Impact</b> – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p><b>Likelihood</b> – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p><b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											





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**Significant Issues Action Plan  
Review 20<sup>th</sup> December 2013**

Control issue	Action	Deadline as per AGS	Planned	Progress	Lead officer
Business Continuity Testing	To review, develop and test ICT Business Continuity Plan to ensure that it is robust enough to mitigate the identified risks for the Council and its partner organisations	March 2014	Deliver ICT Business Continuity back up arrangements through ICT shared service with FoDDC that have been tried and tested.	<ol style="list-style-type: none"> <li>1. BCP project endorsed by Exec Board. Corporate BCP reviewed</li> <li>2. All but one Service CP reviewed and updated</li> <li>3. Back up servers relocated to FoDDC</li> <li>4. Ongoing discussions regarding reciprocal BC arrangements</li> <li>5. Testing of Elections business systems planned for September</li> <li>6. Joint mtgs with FoDDC taken place. On site testing took place on the 4<sup>th</sup> and 10<sup>th</sup> September which were successful.</li> <li>7. Issue considered closed November 2013 BC testing will continue with FoDDC and relevant service managers</li> </ol>	Director of Resources

Control issue	Action	Deadline as per AGS	Planned	Progress	Lead officer
Safeguarding Children and Vulnerable Adults	<ol style="list-style-type: none"> <li>1. Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and safeguarding for each appropriate post in the Council.</li> <li>2. Hold a register of acknowledgements from all employees, casual staff, volunteers and elected members that they have read and understood the Safeguarding Children and Vulnerable Adults handbook.</li> </ol>	March 2014	<p>The Learning and Organisational Development Team will upload the suitable declarations to the Learning gateway and the appropriate declaration for the 'level' of training needed by each member of staff will be added to their development plans by the service manager</p>	<p>S&amp;EM is arranging a meeting with GOSS HR to consider and agree on an effective process.</p> <p>Meeting took place 4/9/13 where it was agreed that a log of all safeguarding training undertaken by their staff, since 2009, will be issued. L&amp;D Manager and Partnership Officer to all service managers with a request for them to identify where there are gaps in training provision. By 1/10/13 Service Managers given 4 weeks to complete</p> <p>The Learning and Organisational Development Team to devise a declaration process to ensure that all staff read and</p>	Strategy and Engagement Manager

Control issue	Action	Deadline as per AGS	Planned	Progress	Lead officer
GO Shared Services	There were limited assurance reports issued for key systems within the GO Shared Service. Action Plans to address these weaknesses have been created.	March 2014	A follow-up review will be conducted by Internal Audit in 2013/14 as part of the annual review work. Progress will be managed by the Client Officer Group and any issues relating to Cheltenham will be reported to Audit Committee in March	<p>understand the Safeguarding Children and Vulnerable Adults handbook.</p> <ul style="list-style-type: none"> <li>• Training records being collated by HR before being circulated to Service Managers.</li> <li>• Flipbook of the policy drafted to assist with training</li> <li>• Officers confident that March deadline will be met</li> </ul>	Client officer GO Shared Services
				<p>The audit assurance results have been notified to the GO COG and highlighted in the GOSS annual report summarising performance for the JMLG. Significant progress has been made in all areas including improvements to payroll resilience and addressing the</p>	

Control issue	Action	Deadline as per AGS	Planned	Progress	Lead officer
ICT Service	There was an investigation into weaknesses in the control framework in ICT which was reported to Audit Committee. An action plan to address these weaknesses has been created.	March 2014	Progress will be managed by the Client Officer Group and any issues relating to Cheltenham will be reported to Audit Committee in March	<p>processing backlog within the Accounts payable team and the change in policy to payment at 'processing date' rather than 'due date' which have improved the turnaround of payment processing times.</p> <p>Progress has been made in the key actions including:</p> <ul style="list-style-type: none"> <li>- Removable media policy have been approved and rolled out and other Key policies are under review.</li> <li>- The council has passed the harder 'zero tolerance' test for Public Service Networks compliance.</li> <li>- Corporate lockdown software has been deployed and business cases submitted for areas of the business requiring access to approved devices.</li> <li>- FOD patch</li> </ul>	Client officer ICT Service

Control issue	Action	Deadline as per AGS	Planned	Progress	Lead officer
				<p>management procedures have been introduced.</p> <ul style="list-style-type: none"> <li>- New anti virus software rollout out and monitored.</li> <li>- Commencement of the infrastructure upgrade strategy which will address the underlying lack of investment in ICT and many of the key actions identified.</li> </ul>	

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**Cheltenham Borough Council**  
**Audit Committee – 15 January 2014**  
**Audit Commission Report – Auditing the Accounts 2012/13**

<b>Accountable member</b>	<b>Councillor Jon Walklett - Cabinet Member Corporate Services</b>
<b>Accountable officer</b>	<b>Mark Sheldon - Director of Resources</b>
<b>Ward(s) affected</b>	<b>Overview and Scrutiny</b>
<b>Key Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>Audit Committee approved the Accounts on the 25<sup>th</sup> September 2013 which included the Annual Governance Statement (AGS) for the period 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013.</p> <p>The AGS indicates how the Council is complying with its Code Of Corporate Governance including the internal control arrangements and management of risk.</p> <p>The Audit Commission has published a report – Auditing the Accounts 2012/13 (appendix 2) which summarises the results of the work of the External Auditors across the country and highlights an issue with the Councils AGS.</p>
<b>Recommendations</b>	<b>That elected Members consider the Audit Commission report, its comments in respect of Cheltenham Borough Council and the comments by Grant Thornton in respect of its work on the 2012/13 AGS and make any recommendations necessary.</b>
<b>Financial implications</b>	<p>None arising from this report.</p> <p><b>Contact officer: Mark Sheldon</b></p> <p><b>Email: mark.sheldon@cheltenham.gov.uk Tel: 01242 264123</b></p>
<b>Legal implications</b>	<p>None directly arising from this report</p> <p><b>Contact officer: Sara Freckleton, Borough Solicitor</b></p> <p><b>Tel; 01684 272011</b></p> <p><b>sara.freckleton@tewkesbury.gov.uk,</b></p>

<b>HR implications (including learning and organisational development)</b>	No direct HR implications in this report. <b>Contact officer: Donna Sheffield</b> <b>Email: donna.sheffield@cheltenham.gov.uk</b> <b>Tel: 01242 774972</b>
<b>Key risks</b>	None arising out of this report.
<b>Corporate and community plan Implications</b>	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.
<b>Environmental and climate change implications</b>	None

## 1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 regulation 4 requires council's to conduct an annual review of the effectiveness of their system of internal control, following the review the Council must approve an Annual Governance Statement (AGS).
- 1.2 The AGS for the 2012/13 financial was approved by the Audit Committee on the 25<sup>th</sup> September 2013 as part of the Accounts.
- 1.3 The External Auditors also presented there ISA260 report to the Audit Committee in September 2013 and there were no comments regarding the AGS.
- 1.4 The Audit Commission published a report on the 12 December 2013 – Auditing the Accounts 2012/13 (appendix 2) which summarises the results of the work of the External Auditors across the country and highlights an issue regarding a statement within Cheltenham's Borough Councils AGS.
- 1.5 This issue relates to the Role of the Chief Financial Officer who is the Councils Director of Resources

## 2. Reasons for recommendations

- 2.1 In 2010, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its *Statement on the Role of the Chief Financial Officer in Local Government* (the Statement). The Statement sets out how the Chief Financial Officer (CFO) should fulfil the requirements of legislation and professional standards in carrying out their role. It also sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the organisational arrangements needed to support them. This includes the principle that the CFO is a key member of the leadership team.
- 2.2 The Local Authority Code requires councils to confirm in their AGS that the body's financial management arrangements conform to the governance requirements of the Statement. Where they do not, the body must provide an explanation of how its financial management arrangements deliver the same impact. The Local Authority Code does not provide an example of what that confirmation should say.
- 2.3 The 2012/13 AGS included the following statement in respect of the Role of the Chief Financial

Officer (Director of Resources who is the designated Section 151 officer)

*To ensure compliance with the Financial Procedure Rules set out in the constitution, the Council has designated the Director of Resources as Chief Financial Officer, in accordance with Section 151 of the Local Government Act 1972. The role is supported through a robust system of financial management. This officer is a key member of the Leadership Team, helping it to develop and implement the authority's strategic objectives ensuring alignment with the authority's financial strategy*

- 2.4 The Audit Commission reported that our External Auditors found that we had not met this requirement of the Local Authority Code as we did not include a relevant disclosure in our AGS.
- 2.5 Following the publication of the Audit Commission report, Grant Thornton informed us that they were notified by the Audit Commission on 1<sup>st</sup> October 2013 of the requirement to complete their auditing the Accounts survey and return their response by 14<sup>th</sup> October. The survey included, amongst other things, a question asking if there was a specific statement in our AGS that conformed to those set out in the CIPFA Statement on the Role of the Chief Financial Officer.
- 2.6 They responded to the survey on 9 October 2013 by saying that that there was no specific statement but there were some general references to compliance with CIPFA requirements, i.e. that compliance was implied. The Audit Commission have subsequently confirmed from their reading of the document that their response was accurate as set out in their email response (dated 10 December 2013) and concluded that the Council should be named in their report.
- 2.7 grant Thorntons risk-based audit approach did not identify this issue and so was not reported in our findings letter at the Audit Committee on 25<sup>th</sup> September 2013.
- 2.8 They did not raise the issue subsequently with the Council as they were unclear whether the naming would happen given their response, and they had not received any communication from the Audit Commission directly on the matter.

### **3. The 2013/14 Annual Governance Statement**

- 3.1 The Director of Resources has taken note of Grant Thornton's comments and the Audit Commissions report and proposes inserting the following more explicit statement within the 2013/14 AGS:-

*The Council is able to confirm that it conforms to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Section 151 Officer is qualified and a substantially and suitably experienced accountant, who is responsible for the proper administration of the Council's financial affairs and for ensuring the lawfulness and financial prudence of financial transactions. The s151 Officer is a member of the Executive Board and Senior Leadership Team with responsibility for: leading and advising on the strategic financial decisions impacting on the Council's delivery of its objectives; ensuring continuing effective financial controls and risk management; management of the Corporate Finance function, which is appropriately resourced with professionally qualified management.*

### **4. Consultation and feedback**

- 4.1 Grant Thornton, One Legal and GOSS HR have been consulted on the report and where they have made comments they have been taken into account

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

- 5.1 The Audit Committee will approve the 2013/14 AGS which will include the amended text at its June 2013 meeting.

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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. Audit Commission Report – Auditing the Accounts 2012/13</li></ol>

# Auditing the Accounts 2012/13

Local government bodies

**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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## Summary

**Overall, both principal and small bodies<sup>i</sup> continued to perform well in meeting their financial reporting responsibilities for 2012/13.**

**Improvement year-on-year has resulted in over 98 per cent of all local government bodies receiving an audit opinion by 30 September 2013.**

Audited accounts are the principal means by which public bodies discharge their accountability for the stewardship of public money. Publishing timely audited accounts, with an unqualified audit opinion, reflects well on bodies' financial management arrangements and is a fundamental feature of good governance. The audit process also provides essential assurance to accounting officers for the relevant government departments that the funds distributed to local government bodies have been safeguarded and accounted for properly.

**Almost all bodies received an audit opinion by 30 September 2013.**

- The audit opinion was issued by 30 September at 99 per cent of councils, all fire and rescue authorities, 97 per cent of police bodies, 98 per cent of other local government bodies and 98 per cent of both parish councils and internal drainage boards (IDBs). This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2011/12.
- Overall, 475 out of 510 principal bodies met the statutory accounts publication requirements. However, there were issues with timely publication of audited accounts at 35 bodies.
- Thirteen principal bodies received an unqualified opinion by 31 July 2013 and published their audited accounts promptly. This compares to 11 bodies for 2011/12.
- For the first time since the Commission began publishing *Auditing the Accounts*, there are no small bodies that have failed to prepare and publish audited accounts for the last three years.

**Responsible financial officers (RFOs) met their requirement to sign and certify the accounts by 30 June 2013 at almost all principal bodies.**

- The RFO failed to sign and certify the accounts by 30 June 2013 at five principal bodies.

<sup>i</sup> Principal bodies include councils, fire and rescue authorities, police bodies and other local government bodies. Small bodies include parish councils and internal drainage boards.



### **The overwhelming majority of audited bodies received an unqualified audit opinion on their accounts.**

- At the date of preparing this report, only one principal body had received a qualified audit opinion on the 2012/13 accounts.
- The majority of small bodies (92 per cent of parish councils and 91 per cent of IDBs) received an unqualified opinion on their 2012/13 annual return by 30 September. However there was a significant increase in qualified opinions for IDBs.

### **Bodies maintained the timeliness of the information provided to inform Whole of Government Accounts (WGA).**

- Auditors aimed to issue the assurance statement on the WGA return by 4 October 2013. They were able to do so at 345 councils (97 per cent), all fire and rescue authorities, 35 police bodies (92 per cent) and 23 other local government bodies (96 per cent). This is consistent with 2011/12, where auditors at 97 per cent of principal bodies were able to issue their assurance report by the specified submission date.

### **Principal bodies have put in place proper arrangements for securing value for money (VFM).**

- Of the 2012/13 conclusions on bodies' arrangements to secure VFM issued by auditors at the date of preparing this report, only those for 12 councils, two police bodies and two other local government bodies were qualified.

### **Auditors exercised their public reporting powers at two principal bodies and six small bodies.**

- Auditors issued a public interest report to Corby Borough Council and made statutory recommendations to Walsall Metropolitan Borough Council.
- Auditors issued public interest reports to six parish councils but made no statutory recommendations to small bodies.

### **Bodies have shown financial resilience but must continue adapting as they face further financial management and reporting challenges in 2013/14.**

- Councils will continue to face financial uncertainty presented by reduced funding and other, local, financial challenges.
- Police bodies will again face accounting difficulties associated with the complexities arising from the abolition of police authorities and the creation of a police and crime commissioner (PCC) and a chief constable as separate legal entities in each local police area.

## Introduction

**1** Audited accounts<sup>i</sup> are the principal means by which public bodies discharge their accountability for the stewardship of public money. Publishing timely audited accounts, with an unqualified audit opinion, reflects well on bodies' financial management arrangements and is a fundamental feature of good governance.

**2** The audit process also provides assurance to the accounting officers of relevant government departments that the funds distributed to local public bodies have been safeguarded and accounted for properly. The information in this report will help to inform the annual governance statement (AGS), included by government departments in their annual report and accounts, and the supporting annual accountability 'systems statement' published on their website.

**3** In this report, the Audit Commission (the Commission) summarises the results of auditors' work at principal and small bodies. Principal bodies include councils, fire and rescue authorities, police bodies and other local government bodies. Principal bodies spend around £137 billion of public money each year. Small bodies include parish councils<sup>ii</sup> and IDBs with annual turnover below £6.5 million.

**4** The report names principal bodies where:

- the RFO did not sign and certify the accounts by 30 June 2013;
- the auditor's opinion on the accounts was not issued by 30 September 2013;
- the auditor's assurance statement on the WGA return was not issued by 4 October 2013;
- the auditor issued a non-standard accounts opinion, non-standard conclusion in the WGA assurance statement or non-standard VFM conclusion;
- accounts were not published by 30 September 2013;
- audited accounts were not published by 30 September 2013 when an audit opinion had been issued on or before that date;
- the AGS did not state that the body complied with the *CIPFA Statement on the role of the Chief Financial Officer*, or explain how it had equivalent arrangements in place; and

**i** The terms 'accounts', 'financial statements', and 'accounting statements' are used in this report to refer to the annual statement of accounts that bodies are required to prepare in accordance with relevant regulations and proper practices.

**ii** The term 'parish councils' includes parish councils, community councils, neighbourhood councils, village councils, town councils and parish meetings in parishes where there is no parish council.

- the auditor issued a public interest report or made statutory recommendations.

**5** Small bodies included in this report were required to publish their 2012/13 accounting statements and AGS by 30 September 2013. Small bodies do this in the form of an annual return. Auditors aimed to issue the opinion and certificate on the 2012/13 annual return by the same deadline. This enables small bodies to publish their annual return with an auditor's report.

**6** The report names those small bodies:

- where the auditor was not able to issue an opinion on the annual return by 30 September for the last three years or more;
- named in last year's report that have taken positive action for 2012/13 to address the concerns identified; and
- where the auditor has issued a public interest report or made statutory recommendations.

**7** A list published alongside this report names the parish councils and IDBs that received a qualified opinion on their annual return in 2012/13, and identifies those bodies that also received a qualification in 2011/12 and/or 2010/11.

## Principal bodies

### Background

8 This section of the report summarises the results of auditors' work for 2012/13 at:

- 356 councils;
- 31 fire and rescue authorities;
- 76 police bodies; and
- 47 other local government bodies<sup>i</sup>.

9 Auditors' work includes the audit of the financial statements; a review of the WGA return; a review of arrangements to secure VFM; and the exercise of their statutory reporting powers.

### Audit of the accounts

#### Requirements

10 The principal bodies covered by this section of the report are required to prepare and publish their annual accounts in accordance with:

- statutory requirements and timetables, as set out in the *Accounts and Audit (England) Regulations 2011* (the Regulations) (Ref. 1); and
- relevant financial reporting standards.

11 The Regulations require the RFO to sign and certify the accounts by no later than 30 June. The body is required, by no later than 30 September, to approve and publish its accounts, which must include publication on its website, together with any audit opinion issued. The RFO must recertify the presentation of the accounts before approval by the body.

#### Early issue of opinion and publication of audited accounts

12 Table 1 lists the 13 bodies where auditors were able to issue an unqualified opinion and VFM conclusion on the 2012/13 accounts by 31 July 2013, and the body published audited accounts promptly. For 2011/12, auditors were able to issue the opinion by 31 July 2012, and the accounts were published promptly, at 11 bodies.

<sup>i</sup> A breakdown of the types of principal bodies covered in the report is available at Appendix 1.

Table 1: **Bodies with early publication of audited accounts**

Body	Date opinion issued	Date audited accounts published
<b>Councils</b>		
*Oldham Metropolitan Borough Council	31 May 2013	31 May 2013
*Transport for London	29 July 2013	29 July 2013
*Kent County Council	24 July 2013	30 July 2013
*Royal Borough of Greenwich	31 July 2013	1 August 2013
<b>Fire and rescue authorities</b>		
*Kent and Medway Fire and Rescue Authority	9 July 2013	26 July 2013
<b>Other local government bodies</b>		
Yorkshire Purchasing Organisation <sup>i</sup>	26 April 2013	30 April 2013
*Transport for Greater Manchester	9 July 2013	9 July 2013
*Great Aycliffe Town Council	22 July 2013	23 July 2013
*Nexus	25 July 2013	25 July 2013
*London Waste and Recycling Board	25 July 2013	2 August 2013
Centro	24 July 2013	5 August 2013
*West Yorkshire Passenger Transport Executive	26 July 2013	6 August 2013
West Yorkshire Integrated Transport Authority	31 July 2013	6 August 2013

Source: Audit Commission

**13** The Commission congratulates the bodies in Table 1 on their performance. Ten of the 13 bodies have published their audited accounts early for at least three of the last four years; these have been marked in the Table with an asterisk.

**14** Oldham Metropolitan Borough Council was again the first council to have its audit opinion issued and to publish its audited accounts. It is also the only council to publish its audited accounts in May since the Commission began collecting information on early publication to support the first *Auditing the Accounts* report covering 2008/09.

**15** Centro and the City of London Corporation have demonstrated that other bodies can also significantly increase the timeliness of their financial reporting. Centro published its audited accounts 54 days earlier than in 2011/12. The City of London Corporation received the auditor's opinion on 7 August 2013 and published its accounts on 18 August 2013, 41 days earlier than in 2011/12.

<sup>i</sup> The Yorkshire Purchasing Organisation has a 31 December financial year-end, and published its audited accounts within four months.

## Certification of accounts by the RFO

**16** The Regulations require the RFO of a principal body, by no later than 30 June, to:

- sign and date the statement of accounts; and
- certify that it presents a true and fair view of the financial position of the body at the end of the financial year and the body's income and expenditure for that year.

**17** The RFO certification demonstrates their confidence in the accuracy of the financial statements and the controls operating within the body. Late certification can cause delay to the audit and may result in members not being able to approve the accounts by 30 September. It may also potentially indicate wider concerns with the accounts production process.

**18** The RFO at 99 per cent of bodies signed and certified the accounts by 30 June 2013. The five bodies where this did not happen are:

- Birmingham City Council;
- Chief Constable for Dorset Police;
- Epping Forest District Council;
- South Worcestershire Shared Services Partnership Joint Committee; and
- West London Waste Authority.

**19** The RFO did not sign and certify the accounts for 2011/12 by 30 June 2012 at seven councils.

## Issuing audit opinions on the accounts

**20** The Audit Commission Act 1998 (the Act) requires auditors to issue an opinion on the accounts on completion of the audit. Auditors aim to issue the opinion by the statutory accounts publication deadline of 30 September, to enable bodies to publish their accounts with an auditor's report.

**21** Table 2 shows there were only eight bodies (2 per cent) where the auditor was unable to issue the opinion on the 2012/13 accounts by 30 September 2013.

Table 2: **When auditors issued the opinion on the 2012/13 and 2011/12 accounts**

Type of body	Number of bodies (2012/13)	Bodies where the auditor issued the opinion by 30 September		
		Number 2012/13	Percentage 2012/13	Percentage 2011/12
Councils	356	351	99	98
Fire	31	31	100	100
Police	76	74	97	97
Other LG bodies	47	46	98	100
<b>Total</b>	<b>510</b>	<b>502</b>	<b>98</b>	<b>98</b>

Source: Audit Commission

**22** There was an outstanding objection to the accounts at one of the eight bodies which meant the auditor could not issue the 2012/13 opinion by 30 September 2013. This body is not named in Table 3 below. As at the date of preparing this report, the opinion at this body has not yet been issued.

**23** Table 3 lists the remaining seven bodies where the auditor was unable to issue the opinion on the 2012/13 accounts by 30 September 2013 for reasons unconnected to local elector objections. Where the auditor has now issued the opinion, the date of issue is provided.

Table 3: **Bodies where the auditor was unable to issue the 2012/13 opinion by 30 September 2013**

Body	Date opinion issued
<b>Councils</b>	
Birmingham City Council	31 October 2013
Craven District Council	31 October 2013
Newham London Borough Council	14 November 2013
Slough Borough Council	31 October 2013
<b>Police bodies</b>	
Chief Constable for Kent Police	24 October 2013
Police and Crime Commissioner for Kent	24 October 2013
<b>Other local government bodies</b>	
Lee Valley Regional Park Authority	22 November 2013

Source: Audit Commission

**24** The most common reasons for delays in issuing the opinion on the 2012/13 accounts were:

- technical accounting issues; and
- various errors identified during the audit.

**25** Appendix 2 sets out the reasons for the delay at each of the bodies listed in Table 3.

### Non-standard audit opinions on the accounts

**26** Auditors may issue five possible types of audit opinion (Table 4). An opinion other than unqualified is known as a 'non-standard opinion'.

Table 4: Types of audit opinion

Type of opinion	Description
Unqualified opinion	The financial statements give a true and fair view, in all material respects, in accordance with the identified financial reporting framework.
Non-standard opinions	
Qualified 'except for' opinion – limitation of scope	The financial statements give a true and fair view, except for the effect of a matter where the auditor was unable to obtain sufficient evidence. For example, the auditor considers the accounting records for a material transaction or balance in the accounts to be inadequate.
Qualified 'except for' opinion – disagreement	The financial statements give a true and fair view, except for the effect of a matter where there was a material disagreement between the auditor and audited body about how the matter was treated in the financial statements.
Adverse opinion	There was a disagreement that was so material, or pervasive, the financial statements as a whole were misleading or incomplete.
Disclaimer of opinion	The auditor was not able to express an opinion, because he or she could not obtain evidence to such an extent the financial statements as a whole could be misleading or incomplete.

Source: Audit Commission

**27** At the date of preparing this report, only one non-standard opinion has been issued on the 2012/13 accounts at a principal body. This is at Manchester City Council, where the group accounts received a qualified 'except for' opinion due to a limitation of scope. This is because the assets of a material component of the group accounts were included in the group accounts at their original cost, when the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* (the Local Authority Code), published by CIPFA/LASAAC<sup>i</sup>, required them to be included at their fair value.

**28** Manchester City Council's group audit opinion for 2011/12 was updated in August 2013 to reflect the same issue as it also affected the 2011/12 accounts. No other non-standard audit opinions were issued for 2011/12.

<sup>i</sup> Local Authority (Scotland) Accounts Advisory Committee



## Follow-up of 2011/12 outstanding opinions

**29** In *Auditing the Accounts 2011/12*, published in December 2012, we noted there were opinions outstanding for three councils. Auditors have now issued unqualified opinions for 2011/12 at all three bodies.

## Publishing the accounts

**30** Bodies are required, by no later than 30 September, to approve and publish their accounts. The accounts must be published on the body's website, together with any audit opinion issued. Overall, 475 bodies (93 per cent) met the requirements of the Regulations: 468 bodies published audited accounts on their website; and seven bodies that did not have an audit opinion by 30 September published unaudited accounts.

**31** Fourteen bodies published unaudited accounts on their website by 30 September, either in committee papers or elsewhere on their website, even though the audit opinion had been issued and the body was in a position to publish the audited accounts by this date. In the Commission's view, this does not meet the requirements of the Regulations. We stated in *Auditing the Accounts 2011/12* that the Commission would name these bodies in this year's report. These bodies are:

- Cheshire Fire and Rescue Authority;
- Chesterfield Borough Council;
- Chief Constable for North Yorkshire Police;
- London Borough of Hillingdon;
- Newark and Sherwood District Council;
- North Norfolk District Council;
- Northumberland National Park Authority;
- Nottingham City Council;
- Peak District National Park Authority;
- Peterborough City Council;
- Police and Crime Commissioner for Merseyside;
- Police and Crime Commissioner for North Yorkshire;
- Sefton Council; and
- Trafford Metropolitan Borough Council.

**32** There were a further 18 bodies where the auditor had issued the opinion on or before 30 September but there was a lack of effective communication between the auditor and the body which resulted in the body not receiving the signed auditor's opinion in sufficient time to publish the accounts before the deadline.

**33** Bodies and auditors need to agree a robust project plan and timetable that allows sufficient time for the accounts to be published, with the audit opinion, by 30 September.

- Bodies do not need to wait to receive a hard copy audit opinion with the auditor's original signature before publishing their audited accounts as the auditor's original signature is not published. It is sufficient for the auditor to confirm in writing that the opinion has been signed and issued

on that date. Bodies receive a copy of the proposed opinion from the auditor in advance and should prepare their accounts for publication including this copy and publish it once they have received confirmation from the auditor.

- Where auditors may not be in a position to complete work on the WGA by 30 September, the accounts opinion should be issued in good time to allow the body to publish their audited accounts by the deadline.

**34** The three principal bodies that did not publish their accounts, either audited or unaudited, by 30 September 2013 are:

- Birmingham City Council;
- Chief Constable for Thames Valley Police; and
- Lower Severn (2005) Internal Drainage Board.

**35** The government is encouraging greater transparency by public bodies to explain how they spend public money. It is disappointing that these three bodies, including the largest council in the country, did not manage to meet their statutory duty to publish accounts within six months of the end of the financial year.

### Annual Governance Statement

**36** The Regulations require bodies to:

- conduct a review at least once a year of the effectiveness of the system of internal control; and
- approve and publish an AGS in accordance with proper practices (Ref .2).

**37** In 2010, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its *Statement on the Role of the Chief Financial Officer in Local Government* (the Statement). The Statement sets out how the chief financial officer (CFO) should fulfil the requirements of legislation and professional standards in carrying out their role. It also sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the organisational arrangements needed to support them. This includes the principle that the CFO is a key member of the leadership team. A similar publication, the *CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*, was issued in July 2012, and applies to police bodies.

**38** The Local Authority Code requires bodies<sup>i</sup> to confirm in their AGS that the body's financial management arrangements conform to the governance requirements of the Statement. Where they do not, the body must provide an explanation of how its financial management arrangements deliver the same impact.

**39** For 2012/13, 492 bodies (96 per cent) included a disclosure in their AGS that met the requirements of the Local Authority Code. Fifteen of these bodies (3 per cent) disclosed that their arrangements did not conform to the

<sup>i</sup> The parish council and IDB that elected to account as larger relevant bodies are not subject to this requirement.

governance requirements of the Statement, and included an explanation of how their arrangements achieved the same impact.

**40** A further 16 bodies did not meet the requirements of the Local Authority Code as they did not include the relevant disclosure in their AGS. We stated in *Auditing the Accounts 2011/12* that the Commission would name these bodies in this year's report. They are:

- Burnley Borough Council;
- Cheltenham Borough Council;
- Cheshire West and Chester Council;
- Chief Constable for Avon and Somerset Police;
- Chief Constable for Essex Police;
- Chief Constable for Lincolnshire Police;
- Chief Constable for Nottinghamshire Police;
- Chief Constable for Wiltshire Police;
- Devon and Somerset Fire and Rescue Authority;
- Humber Bridge Board;
- Police and Crime Commissioner for Avon and Somerset;
- Police and Crime Commissioner for Essex;
- Police and Crime Commissioner for Lincolnshire;
- Police and Crime Commissioner for Nottinghamshire;
- Police and Crime Commissioner for Wiltshire; and
- Rossendale Borough Council.

## Whole of Government Accounts returns

### Issuing assurance statements on the WGA returns

**41** The WGA is a set of consolidated financial statements for the entire UK public sector, covering about 3,000 bodies. The Department for Communities and Local Government (DCLG) and HM Treasury (HMT) require specified local government bodies to submit a WGA return. The WGA return is based on, but separate from, the body's statutory financial statements.

**42** Of the 510 principal bodies covered by this report, 449 were required to submit a WGA return for 2012/13. The breakdown of these bodies is given at Appendix 1.

**43** The National Audit Office (NAO) sets an audit threshold above which auditors are required by the Commission's *Code of Audit Practice* (the Code) to review and report on the WGA return. The threshold for 2012/13 was set at income, expenditure, assets or liabilities above £300 million<sup>i</sup>.

**44** For bodies above the threshold, auditors are required to issue an assurance statement with a conclusion on whether the WGA return:

- has been prepared in accordance with HMT's guidance and instructions; and
- is consistent with the body's audited statutory accounts.

<sup>i</sup> The threshold for 2011/12 was set at £100 million.

**45** For 2012/13, 181 bodies were above the audit threshold. A further 268 bodies were required to submit a WGA return but were below the audit threshold. At these bodies, the auditor is only required to submit a shortform assurance statement that consists of confirmation that a review is not required.

**46** The target date for auditors to issue the 2012/13 assurance statement was 4 October 2013. This is the date specified by DCLG and HMT for the submission of WGA returns within the overall timetable for HMT to prepare the 2012/13 WGA consolidated accounts and for the NAO to audit them.

**47** At 3 per cent of bodies in both 2012/13 and 2011/12, auditors were unable to issue their WGA assurance statement by the submission date specified by DCLG and HMT (Table 5).

Table 5: **When auditors issued their assurance statements on the 2012/13 and 2011/12 WGA returns**

Type of body	Number of bodies (2012/13)	Bodies where the auditor issued the assurance statement by the deadline		
		Number 2012/13	Percentage 2012/13	Percentage 2011/12
Councils	356	345	97	97
Fire	31	31	100	100
Police	38	35	92	95
Other LG bodies	24	23	96	100
<b>Total</b>	<b>449</b>	<b>434</b>	<b>97</b>	<b>97</b>

Source: Audit Commission

**48** Table 6 identifies eight<sup>i</sup> bodies where the auditor was unable to issue the assurance statement on the 2012/13 WGA return by 4 October 2013. Where the auditor has now issued the assurance statement, the date of issue is provided.

<sup>i</sup> The auditors at seven further bodies were unable to issue the WGA assurance statement by 4 October 2013 for reasons outside of the body's control. Auditors at six of these seven bodies have now issued the WGA assurance statement.

Table 6: **Bodies where the auditor was unable to issue the 2012/13 assurance statement on the WGA return by the specified submission date**

Body	Date assurance statement issued
<b>Councils</b>	
Birmingham City Council	8 November 2013
Craven District Council	31 October 2013
London Borough of Lambeth	18 October 2013
Medway Council	31 October 2013
Newham London Borough Council	Not yet issued
Slough Borough Council	Not yet issued
<b>Police bodies</b>	
Police and Crime Commissioner for Kent	Not yet issued
<b>Other local government bodies</b>	
Lee Valley Regional Park Authority	22 November 2013

*Source: Audit Commission*

### Non-standard conclusions in the auditor's assurance statement on the WGA return

**49** Auditors may issue three types of conclusion in their assurance statement on the WGA return (Table 7) at bodies above the audit threshold. A conclusion other than 'Agree' is known as a non-standard conclusion.

Table 7: **Types of WGA assurance statement conclusion**

Type of conclusion	Description
Agree	The WGA return is consistent with the audited statutory accounts and there are no unadjusted errors above the threshold of £1 million.
Non-standard conclusions	
Agree, 'except for'	The WGA return is consistent with the audited statutory accounts except for uncorrected misstatements above the £1 million threshold.
Disagree	The WGA return is not consistent with the audited statutory accounts.

*Source: Audit Commission*

**50** Of the assurance statements issued at the date of preparing this report, auditors had issued a non-standard disagree conclusion on the 2012/13 WGA return at one council: Southend on Sea Borough Council.

**51** In addition, auditors issued non-standard agree 'except for' conclusions on the 2012/13 WGA return at three councils and one police body. These are:

- Brighton and Hove City Council;
- Middlesbrough Council;
- Police and Crime Commissioner for Essex; and
- South Tyneside Council.

**52** It is important that auditors and RFOs maintain a dialogue during the review of the WGA return. This will ensure that the implications of uncorrected misstatements above the £1 million threshold are understood and accepted by the RFO, and that there are no surprises in the auditor's assurance statement.

**53** The number of non-standard conclusions has reduced compared with 2011/12 where auditors issued non-standard assurance statements at nine councils and one police body.

### **Follow-up of 2011/12 outstanding WGA assurance reports**

**54** In *Auditing the Accounts 2011/12*, published in December 2012, we noted there were WGA assurance reports outstanding for four councils. Auditors have now issued agree conclusions on the 2011/12 WGA assurance report at three of these councils. The fourth council, London Borough of Lambeth, received an agree 'except for' conclusion.

## **Value for money conclusions**

### **Background**

**55** Auditors have a duty under section 5(1)(e) of the Act to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In discharging this duty, auditors are required to carry out their work in accordance with the Code. The Code requires auditors to issue a VFM conclusion alongside the opinion on the financial statements.

**56** It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. It is also the responsibility of the audited body to review the adequacy and effectiveness of these arrangements regularly. The audited body is responsible for reporting on aspects of these arrangements as part of its AGS.

**57** For 2012/13, auditors of councils, fire and rescue authorities, and the two Metropolitan police bodies<sup>i</sup> gave their VFM conclusion based on the following two criteria specified by the Commission:

- the organisation has proper arrangements in place for securing financial resilience; and

<sup>i</sup> The Mayor's Office of Policing and Crime and the Commissioner of Police of the Metropolis.

- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

**58** For all other police bodies and the other local government bodies covered by this report, the Commission did not specify criteria for the auditor to report against. Auditors meet their VFM duty by:

- reviewing the AGS;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

**59** Auditors conclude whether or not there are any matters arising from their VFM work that they need to report.

### Non-standard VFM conclusions

**60** Where the specified criteria apply, auditors may issue three types of VFM conclusion (Table 8). A conclusion other than unqualified is known as a non-standard conclusion.

Table 8: **Types of VFM conclusion**

Type of conclusion	Description
Unqualified	The auditor is satisfied that, in all significant respects, the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.
Non-standard VFM conclusions	
Qualified 'except for'	The auditor is satisfied that the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013, in all significant respects, except for one or more specific weaknesses.
Adverse	The auditor is not satisfied that the body made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013, as significant weaknesses were identified.

*Source: Audit Commission*

**61** Where the specified criteria do not apply, the auditor may issue a 'report on matters arising' if they believe there is a matter arising from their VFM work that they need to report.

### **Councils, fire and rescue authorities and Metropolitan police bodies**

**62** Of the 2012/13 VFM conclusions issued at councils, fire and rescue authorities and Metropolitan police bodies at the date of preparing this report, auditors had issued a non-standard conclusion at 12 councils. An adverse conclusion was issued at Wirral Metropolitan Borough Council. The other 11 non-standard conclusions were qualified 'except for' conclusions. These were issued to:

- Bexley London Borough Council;
- Birmingham City Council;
- Calderdale Metropolitan Borough Council;
- Cheshire East Council;
- Corby Borough Council;
- Cumbria County Council;
- Devon County Council;
- Herefordshire Council;
- Rochdale Metropolitan Borough Council;
- Royal Borough of Kingston Upon Thames; and
- Somerset County Council.

**63** At the date of preparing this report, the 2012/13 VFM conclusion for one council had not been issued. This is the body referred to in paragraph 22 where the opinion has been delayed due to an outstanding objection to the accounts.

### **Police bodies outside London and other local government bodies**

**64** Auditors issued a 'report on matters arising' for 2012/13 at two police bodies and two other local government bodies. These bodies are:

- Chief Constable for Surrey Police;
- Police and Crime Commissioner for Surrey;
- South Yorkshire Pensions Authority; and
- West London Waste Authority.

### **Follow-up of 2011/12 outstanding VFM conclusions**

**65** In *Auditing the Accounts 2011/12*, published in December 2012, we noted there were VFM conclusions outstanding for four councils. Auditors have now issued the 2011/12 VFM conclusion at all of these councils. One conclusion was unqualified. The conclusion for Gloucester City Council was qualified 'adverse'. Two conclusions were qualified 'except for', and were issued to:

- Birmingham City Council; and
- Corby Borough Council.



## Auditor reporting

**66** The Act requires auditors to consider whether they should report, in the public interest, on any matter that comes to their attention during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be highlighted to the audited body or the public, either as a matter of urgency or at the conclusion of the audit.

**67** Auditors also have a duty under the Act to consider whether to make any written recommendations to the audited body that need to be considered and responded to publicly; these are known as section 11 recommendations.

### Public interest reports

**68** Since publishing *Auditing the Accounts 2011/12*, auditors issued only one public interest report to a principal body: Corby Borough Council. This report was issued in June 2013 and related to failings in the Council's arrangements for managing four major regeneration capital projects.

**69** All public interest reports are available on the [Commission's website](#).

### Section 11 recommendations

**70** Since the publication of *Auditing the Accounts 2011/12*, the auditor for Walsall Metropolitan Borough Council issued one section 11 recommendation in October 2013 relating to the need for the Council to review its governance framework.

## Small bodies

### Background

**71** This section of the report summarises the results of auditors' work for 2012/13 at 9,600 parish councils and 127 IDBs with annual turnover below £6.5 million<sup>i</sup>. Turnover is taken as the greater of gross annual income or gross annual expenditure. Together these bodies are classed as 'small bodies', and are audited under the Commission's limited assurance audit regime<sup>ii</sup>.

**72** Parish councils are elected bodies that represent their community and provide or contribute to a range of services – for example, parks and open spaces, cemeteries, allotments and bus shelters. They serve about 15 million people in England and spend over £500 million of public money each year. This expenditure is funded mainly through an annual charge, known as a precept, set by the parish council and collected on its behalf as part of council tax.

**73** IDBs are bodies that provide flood risk and water level management services in areas of special drainage need. They spend around £60 million of public money each year. This expenditure is funded mainly through drainage rates on land occupiers and special levies on the local authorities in each IDB drainage area.

### Accounting requirements

**74** Small bodies included in this report are required to prepare their accounting statements in accordance with statutory requirements and timetables, as set out in the Accounts and Audit Regulations (England) 2011, and proper practices (Ref. 3 and Ref. 4).

**75** Small bodies complete their accounting statements in the form of an annual return. The annual return includes the:

- accounting statements<sup>iii</sup>;
- AGS; and
- external auditor's certificate and opinion.

- i** There were also 224 other miscellaneous small bodies, mainly joint committees. The results of their audits are not included in this report.
- ii** Small bodies may choose to prepare accounts as if they were a larger relevant body. One parish council, one IDB and one joint committee chose this approach and are therefore included in the principal bodies' section of the report.
- iii** The accounting statements are the annual income and expenditure account and statement of balances, or the receipts and payments account that a small body is required to prepare in accordance with proper practices.

**76** The external auditor, appointed by the Commission, is required to conduct an audit in accordance with the Act and Schedule 1 to the Code. Paragraphs 78 to 81 of this report provide further information on the external audit framework and auditors' responsibilities.

**77** Small bodies were required to approve their 2012/13 accounting statements and AGS by 30 June and publish<sup>i</sup> these by 30 September 2013. In practice, small bodies fulfil this requirement by publishing the annual return.

### External audit framework

#### Audit framework

**78** The Commission has established a 'limited assurance' audit framework for small bodies with an annual turnover of up to £6.5 million. The framework does not require a full audit in accordance with professional auditing standards. Instead it provides a level of assurance proportionate to the amounts of public money managed by these small bodies.

**79** Under the limited assurance approach, auditors undertake a basic audit of the annual return at bodies with annual turnover up to £200,000 and an intermediate audit at bodies with a turnover between £200,001 and £6.5 million. Under the basic audit approach, small bodies are required to submit a minimum amount of information<sup>ii</sup> to the auditor with a completed annual return. As well as the basic audit requirements, the intermediate audit approach requires auditors to consider the small body's overall control environment in more detail. Auditors obtain additional evidence to support their opinion to reflect the greater risk associated with higher levels of activity or expenditure.

#### Auditors' responsibilities

**80** The Code requires external auditors of small bodies to examine the accounts and any additional information and explanation provided. Auditors give an opinion on the annual return and certify the completion of the audit. Auditors issue an unqualified audit opinion where they consider the annual return meets the specified requirements.

**81** In addition, the Act requires auditors to consider whether, in the public interest, they should report on any matter that comes to their attention during the audit. Auditors report where they consider a matter is sufficiently important to be highlighted to the audited body or to the public, either urgently or at the end of the audit. This might include reporting on governance issues such as the failure to produce, or provide evidence to support, the annual return.

**i** Small bodies can meet the publication requirement by displaying a notice containing the required information.

**ii** The year-end bank reconciliation and a brief explanation of any significant variances compared to the figures for the previous year.

## Accounting statements

### Issuing the audit certificate and opinion

**82** Auditors aimed to issue the opinion and certificate on the 2012/13 annual return by 30 September 2013, to enable small bodies to publish their annual return with an auditor's report by the statutory deadline.

**83** By 30 September 2013, auditors had issued the opinion and certificate on the 2012/13 annual return at 9,400 parish councils (98 per cent) and 125 IDBs (98 per cent). This is an improvement on 2011/12 where auditors issued the opinion and certificate by 30 September 2012 at 97 per cent of both parish councils and IDBs.

**84** Appendix 4 shows, by county area, the number of parish councils and IDBs where auditors issued the opinion and certificate on the 2012/13 annual return by 30 September 2013.

### Persistently late audited annual returns

**85** The government is encouraging greater transparency by public bodies to explain how they spend public money. Local electors and land occupiers are entitled to see how their parish council or IDB respectively has spent public money. Those small bodies that fail to publish an audited annual return are not providing this most basic level of accountability.

**86** In *Auditing the Accounts 2010/11*, the Commission identified 14 parish councils that had not produced an annual return for 2010/11 and at least the previous two years. Five of these bodies also failed to complete an annual return for 2011/12, and received a public interest report as a result.

**87** It is positive that these remaining five bodies have met their reporting obligations for 2012/13. Carrington Parish Meeting declared it had no income or expenditure for the year. Greatford Parish Council received an unqualified audit opinion on its annual return. The three other parish councils received a qualified opinion so they still have work to do to improve their financial reporting in future years. These are:

- Fillingham Parish Meeting;
- Little Ponton and Stroxtton Parish Council; and
- Wyville cum Hungerton Parish Meeting.

**88** For the first time since the Commission began publishing *Auditing the Accounts*, there are no parish councils or IDBs that have persistently failed to prepare and publish audited accounts for three consecutive years. This is a significant achievement and reflects the commitment to local accountability of the great majority of small bodies.

**89** However, each year there are a small number of parish councils that fail to complete an annual return. Where parish councils are active and so depend on local taxpayers for funding, they must also be accountable to their communities. Parish councils are independent bodies but they should

look to work together with other local authorities where the failure to account arises from capacity weakness, an absence of controls or poor governance.

**90** In some cases persistent problems in producing an audited annual return may indicate that a parish council has become dormant, and there may be no active parish clerk or chairman to take responsibility. In these cases, the council tax authority is empowered to conduct and determine a community governance review, which must take into account the views of local people. This may, for example, include bringing together neighbouring parishes into a larger community group to take advantage of structural efficiencies.

### **Case study – Community governance review**

During 2012/13, Stratford-on-Avon District Council undertook a wide ranging community governance review of its entire district area. Its task was to consider whether the existing parish councils are reflective of the identities and interests of the communities in those areas and are effective and convenient and to consider whether it is appropriate for those parish councils to be merged, altered or abolished.

The review identified the necessary restructuring of local accountability to meet the changed needs of its community. The outcome promises improved community engagement, more cohesive communities, better local democracy and a more effective and convenient delivery of local services. The Council intends to repeat the exercise every 10 to 12 years.

### **Follow up of prior year audit opinions for IDBs**

**91** In *Auditing the Accounts 2011/12*, we noted concern about Middle Level Commissioners where the auditor had been unable to issue an opinion for 2011/12 and three previous years.

**92** The auditor has now issued an adverse opinion on both the 2008/09 and the 2009/10 accounts, when the IDB was required to account as a principal body.

**93** From 2010/11, the IDB has been accounting as a small body. The auditor has issued qualified opinions on both the 2010/11 and 2011/12 annual returns. Only the annual return for 2012/13, delayed by the need to finalise the prior years' audits, is now outstanding.

### **Qualified audit opinions**

**94** Auditors issue an unqualified audit opinion where they consider the annual return is in accordance with the specified requirements. Where this is not the case, the auditor will qualify the opinion, setting out the reasons.

**95** Auditors may qualify the opinion on the Annual Return because of issues identified in the accounting statements; the AGS; or both. A qualification on the AGS may relate to one or more of the assertions the small body is required to make. These assertions are listed in Appendix 5.

### **Number of qualified opinions**

**96** Auditors issued a qualified opinion on the 2012/13 annual return by 30 September 2013 at 751 parish councils (8 per cent) and 11 IDBs (9 per cent). This is slightly higher than 2011/12 for parish councils. For IDBs this is significantly higher after an improvement in 2011/12. Of the 762 small bodies receiving a qualified opinion by 30 September 2013, 173 parish councils and one IDB had also received a qualified opinion in 2011/12.

**97** Of continuing concern are the 67 parish councils where auditors have qualified the opinion for three consecutive years (2010/11 to 2012/13). The persistent qualification of the opinion at these 67 small bodies suggests systemic weaknesses in their financial management and governance arrangements which need to be addressed locally.

**98** The Commission has published on its [website](#) lists of those individual parish councils and IDBs where auditors issued a qualified opinion on the 2012/13 annual return by 30 September 2013<sup>i</sup>. The lists show where the opinion was also qualified in either or both of the previous two years.

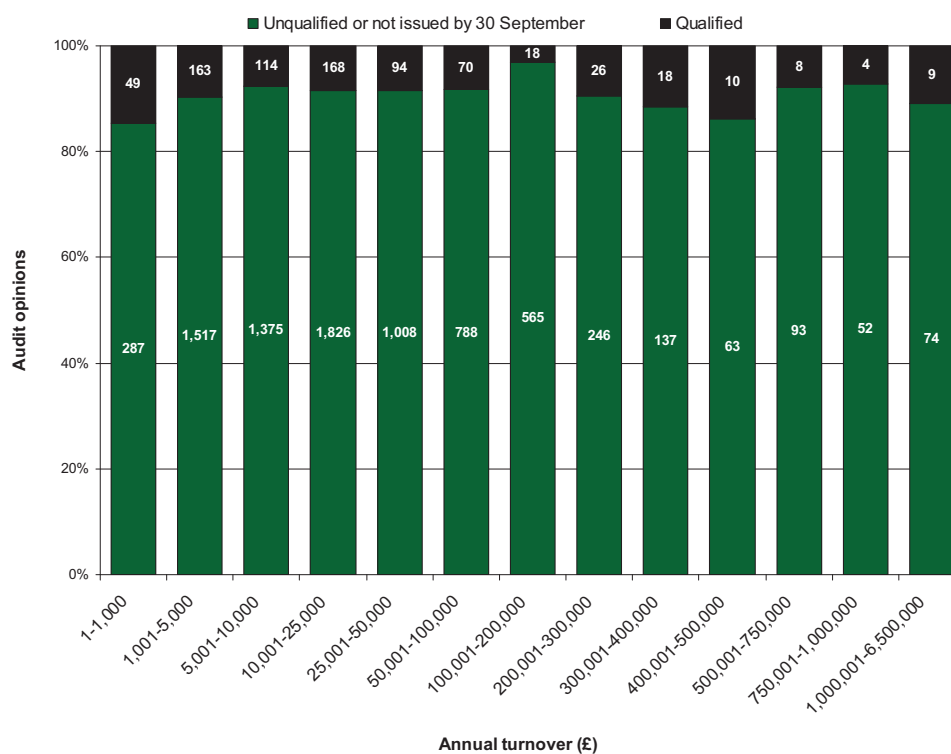
**99** Figure 1 and Table 9 show the number and percentage of qualified opinions, by annual turnover<sup>ii</sup>, for parish councils and IDBs respectively.

**100** There were 495 small bodies that had annual turnover of £25,000 or less and received a qualified opinion on their annual return in 2012/13. The *Local Audit and Accountability Bill*, which is currently before Parliament, proposes that these bodies will not receive a routine annual audit. In the Commission's view, it is not clear how local taxpayers will receive independent external assurance around accountability and governance for the public monies received or spent by these bodies.

<sup>i</sup> A third list shows the status of the small bodies where an opinion on the annual return had not been issued by 30 September 2013.

<sup>ii</sup> The Commission uses 15 turnover bandings to set the external audit fee scales for small bodies.

Figure 1: Qualified audit opinions at 30 September 2013 for parish councils by annual turnover



Source: Audit Commission

Table 9: Qualified audit opinions at 30 September 2013 for IDBs by annual turnover

Annual turnover	Number of IDBs	Number of qualified opinions issued by 30 September 2013
£1 to £25,000	22	1 (5%)
£25,001 to £200,000	50	8 (16%)
£200,001 to £1 million	36	1 (3%)
£1 million to £6.5 million	19	1 (5%)
<b>Total</b>	<b>127</b>	<b>11 (9%)</b>

Source: Audit Commission

**101** Table 10 shows the number of bodies with a qualified opinion by annual turnover for parish councils and IDBs combined.

Table 10: **Number of small bodies with qualified opinions by annual turnover**

Annual turnover	Number of small bodies	Number of qualified opinions issued by 30 September 2013
£0 to £200,000	8,932	685 (8%)
£200,001 to £1 million	693	65 (9%)
£1 million to £6.5 million	102	12 (12%)
<b>Total</b>	<b>9,727</b>	<b>762 (8%)</b>

Source: Audit Commission

**102** Appendix 6 shows the number of qualified opinions for 2012/13 by county area, with comparative information for 2011/12.

### Basis for qualified opinions

**103** Auditors qualified the opinion on the 2012/13 annual return at small bodies mainly because of governance issues identified in the AGS (Table 11).

Table 11: **Nature of qualified opinions on the 2012/13 and 2011/12 annual return at small bodies**

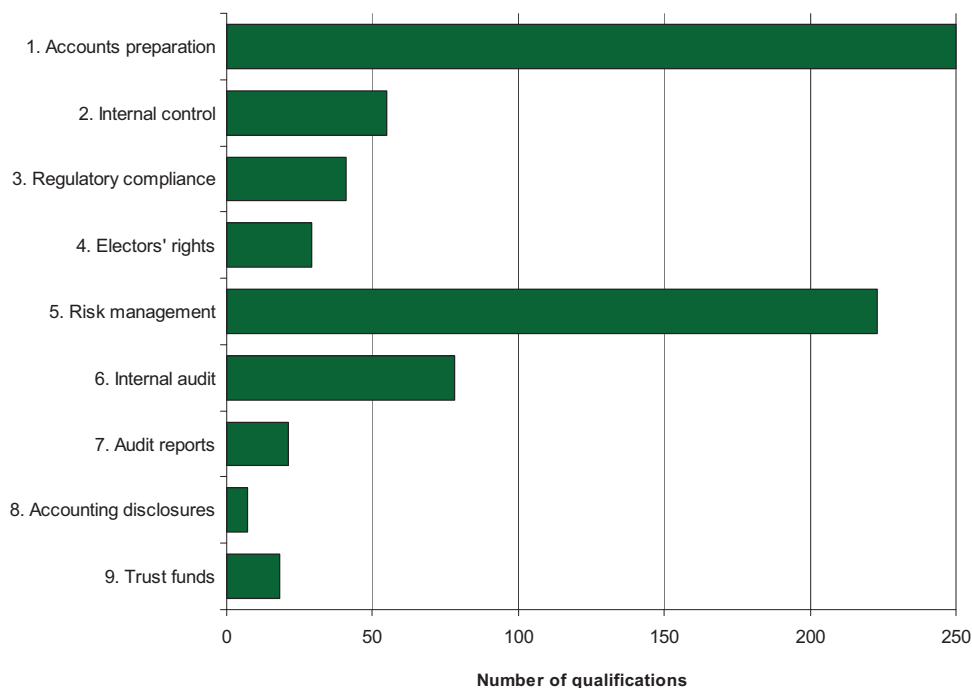
Basis	Number of bodies with a qualified opinion 2012/13	Number of bodies with a qualified opinion 2011/12
Accounting statements	173 (23%)	127 (19%)
AGS	488 (64%)	488 (75%)
Both accounting statements and AGS	101 (13%)	41 (6%)
<b>Total</b>	<b>762 (100%)</b>	<b>656 (100%)</b>

Source: Audit Commission

**104** Figure 2 shows the number of qualifications relating to each of the AGS assertions. Some small bodies may receive a qualified opinion relating to more than one assertion.



Figure 2: **The number of small body qualifications relating to each AGS assertion**



Source: Audit Commission

**105** The qualifications on the AGS for 2012/13 shown in Figure 2 were issued to 589 small bodies. There were 73 small bodies where the auditor qualified two or more assertions in the AGS.

**106** The most common reasons for AGS qualifications at small bodies in 2012/13 related to accounts preparation and risk management. In 2011/12 most qualifications related to risk management.

## Auditor reporting

**107** The Act requires auditors to consider whether they should report, in the public interest, on any matter that comes to their attention during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be highlighted to the audited body or the public, either as a matter of urgency or at the conclusion of the audit.

**108** Auditors also have a duty under the Act to consider whether to make any written recommendations to the audited body that need to be considered and responded to publicly. These are known as section 11 recommendations.

### Public interest reports

**109** Auditors issued six public interest reports to small bodies between December 2012 and November 2013. Three reports related to the failure to produce, or provide evidence to support, the 2011/12 annual return, while three related to a failure of governance or accountability.

## **Failure to produce, or provide evidence to support, the 2011/12 annual return**

- Carrington Parish Council.
- Fillingham Parish Meeting.
- Gosfield Parish Council.

## **Governance or accountability issues**

- Longstanton Parish Council – issued in September 2013, relating to failures in governance by the Council in managing a sports and social club.
- Wellesbourne Parish Council – issued in December 2012, relating to the development of a museum scheme that the Parish Council did not have the statutory powers to undertake.
- Kirby Muxloe Parish Council – issued in May 2013, relating to multiple failures of governance and accountability within the Parish Council. A case study on the Council, showing the impact that a report in the public interest can have, is provided below.

### **Case study – Kirby Muxloe Parish Council**

During the 2011/12 audit, seven local electors exercised their right to object to the accounts of Kirby Muxloe Parish Council (the Council). The objections covered a total of 17 areas.

The external auditor considered the objections, and decided to issue a report in the public interest. This was published on 1 May 2013. The report looked at the assertions that the Council made in its annual return adopted by the Council in June 2012. It found that the Council:

- could not show that the accounting statement had been prepared in accordance with proper practices;
- stated it had an effective system of internal control and had reviewed its effectiveness when it was not in a position to make this statement;
- did not comply with laws and regulations in a number of cases identified by the auditor, despite stating it had taken reasonable steps to satisfy itself that there had been no such instances;
- may not have complied with its statutory duties to allow members of the public to inspect the accounts;
- had not carried out a risk assessment despite stating that it had within its AGS;
- did not make a copy of the internal auditor's report available to members despite saying that it took action to address all the matters raised by the internal auditor in its AGS; and
- declared that it had no trust funds despite being the sole trustee of the Recreation Ground charity.

### **Case study – Kirby Muxloe Parish Council (continued)**

In total, the external auditor made 19 recommendations to address these and wider governance issues identified as a result of their work.

At a meeting of the Council held in June 2013, six members of the Council resigned, making the Council inquorate and unable to make official decisions. As a result, Blaby District Council, the council tax authority covering Kirby Muxloe, used its statutory powers to make a number of temporary appointments to the Council to allow it to operate pending fresh elections.

The Council still faces significant challenges. Completion of the 2012/13 annual return is still outstanding, and the Council will have to work with the local community and the district council to become an effective parish council and restore the confidence of local electors.

**110** All public interest reports are available on the [Commission's website](#).

#### **Section 11 recommendations**

**111** Since publishing *Auditing the Accounts 2011/12*, auditors have issued no section 11 recommendations to small bodies.

## Challenges for 2013/14

### Financial management

**112** Local government is in the midst of a challenging and uncertain financial period. Since May 2010, the government has been implementing a programme of public spending reductions with the aim of reducing the UK's budget deficit. According to the Institute of Fiscal Studies (Ref. 5), the main local government budget is expected to reduce by 35 per cent from 2010/11 to 2015/16. Public spending reductions are expected to continue beyond 2015/16, although their extent and how they will be delivered is not yet clear.

**113** Alongside reductions in funding from central government, audited bodies face other significant financial challenges, including:

- growing demand for some services;
- below-inflation council tax increases;
- reductions in other income streams;
- changes from April 2013 in the way that councils support households to pay council tax and a 10 per cent reduction in the funding from government for this; and
- the introduction, also from April 2013, of local business rates retention, which provides an incentive for councils to promote economic growth but creates uncertainty about the level of income they will receive<sup>i</sup>.

**114** Since 2011, the Commission's Tough Times series of reports has examined how councils have dealt with these issues to date. The [first Tough Times report](#) looked at preparations for budget delivery in 2011/12. [Tough Times 2012](#), published in November 2012, examined what happened in 2011/12 and the preparations for 2012/13. [Tough Times 2013](#), published in November 2013, describes the changes in central government funding to councils from 2010/11 to 2013/14 and the changes in councils' spending on services over that period. It also presents the findings of our 2013 survey of councils' appointed auditors concerning:

- how councils have coped with their recent financial challenges; and
- councils' prospects for financial resilience.

**115** *Tough Times 2013* will be of interest to senior officers and members as they prepare their spending plans for 2014/15. The findings presented will allow councils to compare their circumstances, strategies and actions against the national picture. It also provides policymakers and other stakeholders with a broad picture of the implications of councils' responses to financial challenges to inform future decision making.

<sup>i</sup> A more detailed explanation of the changes is provided in our data briefing on business rates, [Business Rates: Using Data in the VFM Profiles](#), Audit Commission, 2013

### Police accounts

**116** In 2012 the Police Reform and Social Responsibility Act 2011 abolished police authorities and created a police and crime commissioner (PCC) and a chief constable as separate legal entities in each local police area. These new bodies produced their first accounts for the year ended 31 March 2013.

**117** PCCs and chief constables are able to decide their own local arrangements for financial management and governance, and these arrangements differ between local police areas. This has led to variations in the approach adopted by different police areas to the content of their accounts.

**118** On 1 April 2014 local police bodies will implement further changes to their governance arrangements, with the possible transfer of staff and responsibilities to the chief constable. These changes will also have an impact on the accounting treatment adopted by PCCs and chief constables for the financial year 2014/15 onwards and make the accounts less comparable and understandable. The Commission is working with the Home Office and CIPFA to identify what guidance police bodies and auditors may find useful to address these unintended consequences.

### The Commission's 2013/14 Auditing the Accounts report

**119** In December 2014 the Commission will publish *Auditing the Accounts 2013/14: Local government bodies*. This will be the final *Auditing the Accounts* report the Commission publishes before it is due to close on 31 March 2015. The *Local Audit and Accountability Bill*, which is currently before Parliament, makes no provision for the collation and reporting of the results of the audit process as a national whole. The Commission believes that this information is important to taxpayers and accounting officers and should continue to be produced after the Commission closes.

## Appendix 1: Types of principal audited bodies

Type and number of bodies	Breakdown
Councils (356)	Includes 27 county councils, 201 district councils, 33 London borough councils, 36 metropolitan district councils, 56 unitary councils, the Greater London Authority, London Legacy Development Corporation and Transport for London.
Fire and rescue authorities (31)	The analysis for fire and rescue authorities excludes the 15 county council fire and rescue authorities as they are part of the relevant county council for financial reporting purposes.
Police bodies (76)	Includes one police and crime commissioner (PCC) and one chief constable in each of the 37 local police areas in England outside of London, the Mayor's Office for Policing and Crime (MOPAC) and the Commissioner of Police for the Metropolis (CPM). The City of London Police Authority is included within the City of London Corporation for financial reporting purposes.  For WGA purposes, PCCs produced a consolidated WGA return covering the relevant chief constable. The MOPAC and the CPM also produce one combined WGA return.
Other local government bodies (47)	Includes three individual corporate bodies, six integrated transport authorities (ITAs), 13 joint committees, nine national park authorities, six passenger transport executives (PTEs), two pension authorities, six waste disposal authorities and two small bodies (one parish council and one IDB) that elected to account as a larger relevant body for 2012/13.  For WGA purposes, the pension authorities, joint committees, one independent corporate body and the two small bodies are exempt. Five of the six ITAs produced a consolidated WGA return covering the relevant PTE.

Source: Audit Commission

## Appendix 2: Reasons for late audit opinions at principal bodies

Body	Accounts were submitted late for audit	Auditor resource constraints	Representations not received from those charged with governance in accordance with ISA 260	Awaiting assurance from another auditor	Insufficient availability of staff at the audited body to support the audit	Legal issue	Technical accounting issue	Objection issue	Various errors identified during the audit	Other reasons
<b>Councils</b>										
Birmingham City Council	✓									
Craven District Council			✓						✓	
Newham London Borough Council	✓		✓						✓	
Slough Borough Council									✓	
<b>Police bodies</b>										
Chief Constable for Kent Police							✓			
Police and Crime Commissioner for Kent							✓			
<b>Other local government bodies</b>										
Lee Valley Regional Park Authority							✓		✓	

## Appendix 3: Summary of principal bodies named in this report

Body	Accounts not certified by RFO by 30 June 2013	Audit opinion not issued by 30 September 2013	Non-standard audit opinion	Audited accounts not published by 30 September 2013	CIPFA statement not complied with	WGA assurance report not issued by 4 October 2013	Non-standard WGA assurance statement	Non-standard VFM conclusion	Public interest report	Section 11 recommendation	2011/12 prior year issues
<b>Councils</b>											
Bexley London Borough Council	✓	✓		✓		✓	✓	✓			✓
Birmingham City Council				✓		✓	✓	✓			
Brighton and Hove City Council							✓				
Burnley Borough Council					✓						
Calderdale Metropolitan Borough Council							✓	✓			
Cheltenham Borough Council					✓			✓			
Cheshire East Council								✓			
Cheshire West and Chester Council					✓						
Chesterfield Borough Council				✓							
Corby Borough Council								✓	✓		✓
Craven District Council		✓				✓					
Cumbria County Council								✓			
Devon County Council								✓			



Body	Accounts not certified by RFO by 30 June 2013	Audit opinion not issued by 30 September 2013	Non-standard audit opinion	Audited accounts not published by 30 September 2013	CIPA statement not complied with	WGA assurance report not issued by 4 October 2013	Non-standard WGA assurance statement	Non-standard VFM conclusion	Public interest report	Section 11 recommendation	2011/12 prior year issues
Epping Forest District Council	✓										✓
Gloucester City Council											
Herefordshire Council								✓			
London Borough of Hillingdon		✓									
London Borough of Lambeth						✓					✓
Manchester City Council			✓								✓
Medway Council						✓					
Middlesbrough Council							✓				
Newark and Sherwood District Council				✓							
Newham London Borough Council		✓				✓					
North Norfolk District Council				✓							
Nottingham City Council				✓							
Peterborough City Council				✓							
Rochdale Metropolitan Borough Council								✓			
Rossendale Borough Council					✓						
Royal Borough of Kingston Upon Thames								✓			

Body	Accounts not certified by RFO by 30 June 2013	Audit opinion not issued by 30 September 2013	Non-standard audit opinion	Audited accounts not published by 30 September 2013	CIPA statement not complied with	WGA assurance report not issued by 4 October 2013	Non-standard WGA assurance statement	Non-standard VFM conclusion	Public interest report	Section 11 recommendation	2011/12 prior year issues
Sefton Council				✓							
Slough Borough Council	✓					✓					
Somerset County Council							✓				
South Tyneside Council							✓				
Southend on Sea Borough Council							✓				
Trafford Metropolitan Borough Council				✓							
Walsall Metropolitan Borough Council										✓	
Wirral Metropolitan Borough Council								✓			
<b>Fire and rescue authorities</b>											
Cheshire Fire and Rescue Authority				✓							
Devon and Somerset Fire and Rescue Authority											
<b>Police bodies</b>											
Chief Constable for Avon and Somerset Police					✓						
Chief Constable for Dorset Police	✓										
Chief Constable for Essex Police											
Chief Constable for Kent Police		✓									

Body	Accounts not certified by RFO by 30 June 2013	Audit opinion not issued by 30 September 2013	Non-standard audit opinion	Audited accounts not published by 30 September 2013	CIPA statement not complied with	WGA assurance report not issued by 4 October 2013	Non-standard WGA assurance statement	Non-standard VFM conclusion	Public interest report	Section 11 recommendation	2011/12 prior year issues
Chief Constable for Lincolnshire Police				✓	✓						
Chief Constable for North Yorkshire Police				✓							
Chief Constable for Nottinghamshire Police					✓						
Chief Constable for Surrey Police								✓			
Chief Constable for Thames Valley Police				✓							
Chief Constable for Wiltshire Police					✓						
Police and Crime Commissioner for Avon and Somerset					✓						
Police and Crime Commissioner for Essex					✓		✓				
Police and Crime Commissioner for Kent		✓				✓					
Police and Crime Commissioner for Lincolnshire					✓						
Police and Crime Commissioner for Merseyside				✓							
Police and Crime Commissioner for North Yorkshire				✓							

Body	Accounts not certified by RFO by 30 June 2013	Audit opinion not issued by 30 September 2013	Non-standard audit opinion	Audited accounts not published by 30 September 2013	CIPA statement not complied with	WGA assurance report not issued by 4 October 2013	Non-standard WGA assurance statement	Non-standard VFM conclusion	Public interest report	Section 11 recommendation	2011/12 prior year issues
Police and Crime Commissioner for Nottinghamshire					✓						
Police and Crime Commissioner for Surrey								✓			
Police and Crime Commissioner for Wiltshire					✓						
<b>Other local government bodies</b>											
Humber Bridge Board					✓						
Lee Valley Regional Park Authority		✓									
Lower Severn (2005) Internal Drainage Board				✓							
Northumberland National Park Authority				✓							
Peak District National Park Authority				✓							
South Worcestershire Shared Services Partnership Joint Committee	✓										
South Yorkshire Pensions Authority											
West London Waste Authority	✓										

**Bodies named for early publication of audited accounts**

- Centro
- Great Aycliffe Town Council
- Kent and Medway Fire and Rescue Authority
- Kent County Council
- London Waste and Recycling Board
- Nexus
- Oldham Metropolitan Borough Council
- Royal Borough of Greenwich
- Transport for Greater Manchester
- Transport For London
- West Yorkshire Integrated Transport Authority
- West Yorkshire Passenger Transport Executive
- Yorkshire Purchasing Organisation

**Bodies named for earlier production of audited accounts**

- Centro
- City of London Corporation

## Appendix 4: Opinions issued by 30 September 2013 on the 2012/13 annual return by county area

County area	Number of parish councils	Opinions issued by 30 September 2013	Number of IDBs	Opinions issued by 30 September 2013
Avon	136	133 (98%)	1	1 (100%)
Bedfordshire	124	124 (100%)	1	1 (100%)
Berkshire	103	102 (99%)	0	N/A
Buckinghamshire	217	204 (94%)	1	1 (100%)
Cambridgeshire	259	255 (98%)	43	42 (98%)
Cheshire	234	233 (99%)	0	N/A
Cleveland and Durham	185	184 (99%)	0	N/A
Cornwall	213	202 (95%)	0	N/A
Cumbria	266	266 (100%)	0	N/A
Derbyshire	258	246 (95%)	0	N/A
Devon	400	386 (97%)	1	1 (100%)
Dorset	192	192 (100%)	0	N/A
East Sussex	103	100 (97%)	4	4 (100%)
Essex	283	277 (98%)	0	N/A
Gloucestershire	263	259 (98%)	0	N/A
Hampshire and Isle of Wight	295	293 (99%)	0	N/A
Herefordshire	138	133 (96%)	1	1 (100%)
Hertfordshire	125	123 (98%)	0	N/A
Humberside	238	237 (99%)	20	20 (100%)
Kent	314	310 (99%)	5	5 (100%)
Lancashire	248	245 (99%)	1	1 (100%)
Leicestershire	283	271 (96%)	0	N/A
Lincolnshire	454	431 (95%)	9	9 (100%)
Norfolk	528	517 (98%)	13	12 (92%)
North Yorkshire	600	593 (99%)	10	10 (100%)
Northamptonshire	260	260 (100%)	0	N/A
Northumberland	156	156 (100%)	0	N/A
Nottinghamshire	209	207 (99%)	1	1 (100%)
Oxfordshire	317	315 (99%)	0	N/A
Shropshire	193	188 (97%)	4	4 (100%)
Somerset	316	305 (97%)	2	2 (100%)
South Yorkshire	93	91 (98%)	2	2 (100%)
Staffordshire	186	180 (97%)	0	N/A
Suffolk	426	422 (99%)	4	4 (100%)
Surrey	87	87 (100%)	0	N/A
Warwickshire	224	217 (97%)	1	1 (100%)
West Sussex	156	155 (99%)	3	3 (100%)
West Yorkshire	89	88 (99%)	0	N/A
Wiltshire	268	259 (97%)	0	N/A
Worcestershire	161	154 (96%)	0	N/A
<b>Total</b>	<b>9,600</b>	<b>9,400 (98%)</b>	<b>127</b>	<b>125 (98%)</b>

## Appendix 5: Assertions in the annual governance statement for small bodies

AGS assertion	‘Yes’ means that the small body took the following action:
1 We have approved the accounting statements, which have been prepared in accordance with the requirements of the Accounts and Audit Regulations and proper practices.	Prepared its accounting statements in the way prescribed by law.
2 We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	Made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.
3 We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential noncompliance with laws, regulations and codes of practice which could have a significant financial effect on the ability of the body to conduct its business or on its finances.	Has only done things that it has the legal power to do and has conformed to codes of practice and standards in the way it has done so.
4 We have provided proper opportunity during the year for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit Regulations.	During the year has given all persons interested the opportunity to inspect and ask questions about the body’s accounts.
5 We have carried out an assessment of the risks facing the body and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Considered the financial and other risks it faces and has dealt with them properly.
6 We have maintained throughout the year an adequate and effective system of internal audit of the body’s accounting records and control systems.	Arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether these meet the needs of the body.
7 We have taken appropriate action on all matters raised in reports from internal and external audit.	Responded to matters brought to its attention by internal and external audit.
8 We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the body and, where appropriate have included them in the accounting statements.	Disclosed everything it should have about its business activity during the year including events taking place after the year-end if relevant.
<b>For parish councils only</b>	
9 Trust funds (including charitable) – in our capacity as the sole managing trustee we have discharged our responsibility in relation to the accountability for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.	Has met all of its responsibilities where it is a sole managing trustee of a local trust or trusts.

## Appendix 6: Qualified opinions for small bodies by county area

The number of qualified opinions for each county area as a percentage of small bodies in that area.

County area	Parish council qualified opinions 2012/13 issued by 30 September 2013	Parish council qualified opinions 2011/12	IDB qualified opinions 2012/13 issued by 30 September 2013	IDB qualified opinions 2011/12
Avon	6 (4%)	7 (5%)	0 (0%)	0 (0%)
Bedfordshire	11 (9%)	13 (10%)	0 (0%)	0 (0%)
Berkshire	4 (4%)	5 (5%)	N/A	N/A
Buckinghamshire	7 (3%)	17 (8%)	0 (0%)	0 (0%)
Cambridgeshire	19 (7%)	21 (8%)	1 (2%)	1 (2%)
Cheshire	27 (12%)	9 (4%)	N/A	N/A
Cleveland and Durham	22 (12%)	23 (13%)	N/A	N/A
Cornwall	13 (6%)	2 (1%)	N/A	N/A
Cumbria	18 (7%)	15 (6%)	N/A	N/A
Derbyshire	21 (8%)	11 (5%)	N/A	N/A
Devon	14 (4%)	6 (2%)	0 (0%)	0 (0%)
Dorset	15 (8%)	20 (11%)	N/A	N/A
East Sussex	12 (12%)	9 (9%)	3 (75%)	0 (0%)
Essex	33 (12%)	11 (4%)	N/A	N/A
Gloucestershire	13 (5%)	25 (10%)	N/A	0 (0%)
Hampshire and Isle of Wight	40 (14%)	3 (1%)	N/A	N/A
Herefordshire	7 (5%)	5 (4%)	0 (0%)	0 (0%)
Hertfordshire	10 (8%)	18 (14%)	N/A	N/A
Humberside	32 (13%)	16 (7%)	0 (0%)	0 (0%)
Kent	22 (7%)	4 (1%)	2 (40%)	0 (0%)
Lancashire	27 (11%)	25 (10%)	0 (0%)	0 (0%)
Leicestershire	22 (8%)	18 (7%)	N/A	N/A
Lincolnshire	23 (5%)	61 (15%)	0 (0%)	1 (9%)
Norfolk	26 (5%)	26 (5%)	1 (8%)	0 (0%)
North Yorkshire	46 (8%)	47 (8%)	0 (0%)	1 (7%)
Northamptonshire	12 (5%)	16 (10%)	N/A	N/A
Northumberland	21 (13%)	15 (7%)	N/A	N/A
Nottinghamshire	24 (11%)	14 (6%)	0 (0%)	1 (25%)
Oxfordshire	28 (9%)	40 (13%)	N/A	N/A
Shropshire	6 (3%)	18 (9%)	0 (0%)	0 (0%)
Somerset	11 (3%)	10 (3%)	1 (50%)	1 (20%)
South Yorkshire	11 (12%)	13 (14%)	0 (0%)	1 (11%)
Staffordshire	27 (15%)	3 (2%)	N/A	N/A
Suffolk	44 (10%)	57 (13%)	0 (0%)	0 (0%)
Surrey	10 (11%)	12 (14%)	N/A	N/A
Warwickshire	26 (12%)	7 (3%)	0 (0%)	0 (0%)
West Sussex	11 (7%)	4 (3%)	3 (100%)	0 (0%)
West Yorkshire	9 (10%)	3 (3%)	N/A	N/A
Wiltshire	16 (6%)	15 (6%)	N/A	N/A
Worcestershire	5 (3%)	6 (4%)	N/A	N/A
<b>Total</b>	<b>751 (8%)</b>	<b>650 (7%)</b>	<b>11 (9%)</b>	<b>6 (4%)</b>



## References

- 1 Accounts and Audit Regulations (England) 2011
- 2 CIPFA/SOLACE, Delivering Good Governance in Local Government: Framework, CIPFA/SOLACE, 2007
- 3 Joint Practitioners' Advisory Group, Governance and Accountability in Local Councils: A Practitioners' Guide (England) 2010, National Association of Local Councils and the Society of Local Council Clerks, 2010
- 4 Joint Practitioners' Advisory Group, Governance and Accountability in Internal Drainage Boards in England: A Practitioners' Guide 2007, Association of Drainage Authorities, 2007
- 5 We Shall Squeeze Until the Pips Squeak: Post-Spending Round Briefing, Tetlow, Gemma (Presentation slides), Institute for Fiscal Studies, 2013.

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Item	Officer	Decision / Discussion / Information
<b>25 September 2013</b>		
<b>Send work plan to GT:</b> 12 August	<b>Chairs briefing:</b> 21 August 5 pm	<b>Complete reports to be with Democratic Services by:</b> 9 am on 12 September 2013
Audit update report	Grant Thornton	Discussion
Audit highlights memorandum - ISA 260 (2012-13)	Grant Thornton	Discussion
Financial Resilience report (2012-13)	Grant Thornton	Discussion
Internal audit monitoring report (including ICT)	Rob Milford	Discussion
Review of annual statement of accounts	Finance Team	Decision
Leisure & Culture trust governance	Ken Dale	Discussion
Office of surveillance commissioners – RIPA inspection report	Bryan Parsons	Decision
<b>15 January 2014</b>		
<b>Send work plan to GT:</b> 2 December	<b>Chairs briefing:</b> 18 December 12 noon	<b>Complete reports by:</b> 6 January 2014
Audit update report	Grant Thornton	Discussion
Annual audit letter 2012 -13	Grant Thornton	Discussion
Certification of grants and returns (for the previous year)	Grant Thornton	Discussion
Internal audit monitoring report (inc PSN update)	Rob Milford	Tbc
Annual governance statement – significant issues action plan	Bryan Parsons	Decision
Review of risk management	Bryan Parsons	Discussion
Report on shared service governance (briefing note)	Rob Milford	
LGA Briefing paper on role of Auditors	Mark Sheldon	To email
<b>26 March 2014</b>		
<b>Send work plan to GT:</b> 10 February	<b>Chairs briefing:</b> 20 February 2014 5 pm	<b>Complete reports by:</b> 17 March 2014
Audit update report	Grant Thornton	Discussion
Audit plan (for the current year)	Grant Thornton	Discussion

Audit Committee 2013-2014 work plan

Item	Officer	Decision / Discussion / Information
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Auditing Standards – communicating with the Audit Committee	Grant Thornton	Decision
Annual plan (for the upcoming year)	Rob Milford	Tbc
Internal audit monitoring report	Rob Milford	Tbc
Annual review of risk management policy	Bryan Parsons	Decision
Approval of the Code of Corporate Governance	Bryan Parsons	Decision
Revenue and benefits commissioning review (governance arrangements)	Mark Sheldon	Tbc

**18 June 2014**

Send work plan to GT: 5 May	Chairs briefing: Officers will agree agenda owing to elections	Complete reports by: 9 June 2014
Audit update report		Grant Thornton Discussion
Internal audit opinion (for the previous year)		Rob Milford Discussion
Internal audit monitoring report		Rob Milford Tbc
Annual governance statement		Bryan Parsons Decision
Annual counter fraud report		Rob Milford Tbc
Corporate Governance arrangements for Leisure and Culture Trust		Rob Milford/PP/Ken Dale Decision to approve

**Items to be added at a future date (future dates will not be agreed until March 2014)**

Corporate Strategy – consideration of governance issue	Rob Milford	Tbc
Joint training session with Cotswold, West Oxford and F.O.D councillors – governance of shared services (tbc)	Rob Milford / Mark Sheldon	n/a
Policy review timetable (briefing note)	Bryan Parsons	Information
Requirements of the Localism Act (re: local audit)	Rob Milford	Tbc
Corporate Governance arrangements for Glos Airport following further work by the	Mark Sheldon	Date tbc

Audit Committee 2013-2014 work plan

Item	Officer	Decision / Discussion / Information
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JASWG and recs arising		
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ANNUAL ITEMS (standing items to be added to the work plan each year)		
January	Audit update report	Grant Thornton
	Annual audit letter (for the previous year)	Grant Thornton
	Certification of grants and returns (for the previous year)	Grant Thornton
	Internal audit monitoring report	Rob Milford
	Annual governance statement – significant issues action plan	Bryan Parsons
March	Audit update report	Grant Thornton
	Audit plan (for the current year)	Grant Thornton
	Auditing Standards – communicating with the Audit Committee	Grant Thornton
	Annual plan (for the upcoming year)	Rob Milford
	Internal audit monitoring report	Rob Milford
	Annual review of risk management policy	Bryan Parsons
	Approval of the Code of Corporate Governance	Bryan Parsons
June	Audit update report	Grant Thornton
	Internal audit opinion (for the previous year)	Rob Milford
	Internal audit monitoring report	Rob Milford
	Annual governance statement	Bryan Parsons
	Annual counter fraud report	Rob Milford
September	Audit update report	Grant Thornton
	Audit highlights memorandum - ISA 260 (for the previous year)	Grant Thornton
	Financial Resilience report (for current year)	Grant Thornton
	Internal audit monitoring report	Rob Milford

Audit Committee 2013-2014 work plan

Item	Officer	Decision / Discussion / Information
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Review of annual statement of accounts	Finance Team	Tbc
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\* MS and RM have not confirmed whether they are available for the briefing dates that have been proposed.

**The work plan should be sent to Grant Thornton at least a week before it is circulated in advance of the briefing (proposed dates above) so that they can confirm which items they wish to table at the upcoming meeting.**

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## Briefing Note

### Audit Committee - 15th January 2014

#### Consultation Response – Future of Local Audit

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 To inform the committee of the government's latest thinking in terms of the operation of audit committees in councils.

#### 2. Summary of the Issue

- 2.1 The Government introduced the Local Audit and Accountability Bill (the Bill) into Parliament on 9 May 2013. The Bill sets out the vision for the new local audit framework, and contains additional measures which are complementary to existing initiatives to increase transparency and enable local scrutiny of public bodies. The Bill makes specific provisions for, and in connection with:

- the abolition of the Audit Commission and the existing audit regime for local public bodies;
- the transfer of the Audit Commission's residual functions to other bodies;
- the establishment of a new local audit framework, making provisions associated with the accounts of local public bodies and the arrangements for the auditing of those accounts;
- the processes involved in the appointment, functions and regulations of local public auditors, including their resignation or removal;
- aligning the regulatory framework for local public audit with that of private sector audits, with the Financial Reporting Council and accountancy professional bodies regulating and monitoring the quality of audit;
- the National Audit Office taking on the responsibility for preparing the code of audit practice and guidance, setting out what functions auditors need to undertake in relation to local public audit;
- economy, efficiency and effectiveness examinations by the Comptroller and Auditor General of groups of English local public bodies;
- the publication of information by smaller authorities;
- the transfer of the National Fraud Initiative, the Audit Commission's data matching powers and other counter fraud tools to another body;
- directions to comply with codes of practice on local authority publicity;
- council tax referendums; and
- other connected purposes.

- 2.2 If enacted, to give effect to the new local audit arrangements many of the provisions contained in the Bill will require secondary legislation. The Government is now seeking to consult all interested parties about the content of a large subset of the

proposed secondary legislation. The draft regulations refer to clauses as in the Bill introduced from the House of Lords to the House of Commons on 31 July 2013.

The consultation document sets out proposals for the regulations regarding:

**Part 2:** Modification of the Act in relation to smaller authorities (Clause 5, Part 1),

**Part 3:** Appointment of Auditors

- Constitution of auditor panels (Schedule 4, Para 2(9));
- Constitution of auditor panels (Schedule 4 Para 4);
- Application of local authority enactments to auditor panels (Schedule 4 Para 4);
- Functions of auditor panels (Clause 10(8));

**Part 4:** Eligibility and Regulations of Auditors;

- Appropriate qualifications (Schedule 5, Para 8);
- Definition of “major local audits” (Schedule 5).

**2.3** DCLG are seeking contributions from all local public bodies affected by these changes, their representatives and any other interested parties, to help them refine the regulations and policy statements contained in this document.

**2.4** The full details of the consultation can also be found on GOV.UK, where you also download an electronic version of the consultation document at: <https://www.gov.uk/government/consultations/future-of-local-audit-consultation-on-secondary-legislation>. A paper copy has also been put in the Members room. The consultation began on 25 November and ran for a period of 4 weeks, with responses invited by 20 December 2013.

### **3. Summary of evidence/information**

**3.1** The attached response was submitted to the audit commission on behalf of the GO partner councils and is circulated for information.

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<b>Background Papers</b>	Copy of Consultation Response – Future of Local Audit
<b>Contact Officer</b>	Mark Sheldon, Director Resources,  Telephone 01242, 264123  Email <a href="mailto:Mark.sheldon@cheltenham.gov.uk">Mark.sheldon@cheltenham.gov.uk</a>
<b>Accountability</b>	Councillor Jon Walklett, Cabinet Member Corporate Services

## **Consultation Response – Future of Local Audit**

### **Response on Behalf of Cheltenham Borough Council**

#### **Smaller authorities' regulations**

No response from the Borough Council

#### **Independent auditor panels and the resignation and removal of auditors**

##### ***7. Do you have any comments about the draft regulations on auditor panels and/or the resignation and removal of auditors?***

The draft regulations on auditor panels represent another unnecessary bureaucratic burden being imposed on Councils that is not imposed on the Private Sector.

It is disappointing that the DCLG continue to ignore the many previous consultation responses that have made it clear that existing Audit Committees should be given this role.

It will be difficult to attract sufficient appropriate independent members to fulfil such a limited role which could require just one meeting every five years without payment and this would be a new burden at a time of fiscal restraint.

##### ***8. On the resignation and removal of an auditor, does three months give a reasonable period for relevant authorities to make a new appointment?***

This will depend on the appointment process that has to be followed. If an OJEU compliant exercise has to be undertaken three months will be insufficient.

#### **Eligibility and regulation of auditors**

No response

#### **Conduct of local audit**

##### **Consideration of report or recommendation – Public Interest Reports**

##### ***13. Do you have any comments on the arrangements for Public Interest Reports?***

No response

## **Accounts and audit regulations**

### ***14. Do you have any comments about the provisions for financial management, internal control and internal audit?***

Regulation 6 (Internal Audit) - The modern definition of internal audit (from CIPFA and IIA) states that internal audit covers “Risk Management, Control and Governance”; the regulations only state the control aspects and should be expanded to include risk management and governance.

### ***15. Do you have any comments on the content of statements of account and the process for producing them?***

The Council is extremely concerned that the proposals will add further burdens in terms of content. It could be argued that a lot of the existing content is of little benefit to most users of the accounts and incomprehensible to the general public. The assertion in the consultation at 5.12 that such items “enhance accountability and transparency to the public” is without foundation and it would be interesting to see what research exists to support this.

### ***16. Do you have any comments on the bringing forward of the local government accounts timetable, or the practical issues a change would raise?***

It is difficult to see how the benefits of a change could even get close to matching the costs. Sound business processes always seek to even out peaks and troughs in workloads – the proposals suggested would make the peaks higher and troughs lower and represent an inefficient business practice without significant business benefits being delivered.

At 5.18 the consultation acknowledges that “authorities would need to make significant changes to their systems and processes to move the publication date forward”. The advantages put forward at 5.17 do not stand up to robust analysis. It is very rare indeed for a local resident to express any interest in the Statement of Accounts so bringing forward publication would not enhance accountability.

The Statement of Accounts does not play a significant role in most authority’s financial management. The primary tools for financial management are the management accounts authorities produce and the cash flows they monitor. In order to meet the various requirements of IFRS the Statement of Accounts has little resemblance to most outturn reports which tend to present the outturn and movement in reserves in a much simpler way.

It is also necessary to consider the ability of audit firms to cope with any change and the burden this would place on them. Currently the work flows well and most audit teams will do their health work before moving on to their

local government clients. If it becomes necessary to do the health and local government work at the same time it would create a huge peak in demand for auditors over a short period of time and they would then be left with nothing to do. In simple practical terms it makes sense for local authority work to follow on from health work.

Bringing forward the accounting timetable will lead to a trade-off between timeliness and accuracy. All accounts contain some element of estimation and the sooner you close the accounts the greater the element of estimation. The current timescale allows for a proper appraisal of key areas of estimation. If local authorities were forced to close their accounts quicker this would be likely to reduce the accuracy of the information and lead to either more audit adjustments or possibly qualifications.

Many local authorities have subsidiary interests/joint venture interests and are therefore required to produce Group Accounts. Group Accounts cannot be prepared until the information is available from the subsidiary entity. Although local authorities work closely with their subsidiaries, bringing forward the deadline for completion of the accounts process would cause significant issues not just for the local authority accountants but also for their counterparts, many of whom will be complying with Companies Act requirements.

The current closure and filing deadlines for the private sector are 9 months – local authorities are already in advance of this at 6 months and therefore there are no grounds for bringing this forward as it will not increase accountability and will without doubt increase both accounts preparation costs and audit costs.

It is also noteworthy that despite Oldham being used as an example of closure and audit by 31 May they did not in fact have a completed audit by that date.

***17. Do you have any comments about Options 1 and 2, or any other options for that matter which would align inspection periods more closely?***

The existing system seems to work adequately; it avoids accountants being diverted away from the production of the Statement of Accounts. Given the level of cuts to government funding in recent years, many local authorities have reduced the resources in their back-office. This means there are fewer resources available to support the statement of accounts production. June is a very busy period for local authority finance teams as they complete the preparation of the statement by the statutory deadline. Commencing the inspection period in mid-June will add unnecessary pressure to already stretched teams.

**18. What is the level of take up of these rights? What information do local electors access through these rights? What use is made of this information?**

Generally take up is very low. However, there are occasions when one interested party can take up a great deal of officer time.

As local government has become more transparent by publishing spend data, salary information, contract award notices etc. most of the information which underpins the statement of accounts is now available in a timely manner via local authority websites.

**19. Do you have any comments about additional publicity for the inspection period?**

Once again an unnecessary additional bureaucratic burden is being considered. The current arrangements are adequate and indeed the Council would argue that the requirement to place a public notice is outdated and should be removed with website notification only necessary.

**20. Do you have any other comments on the Accounts and Audit regulations for principal bodies?**

The department should stop seeking to place burdens upon Councils which do not fall on the private sector.

**21. Do you have any comments on the content of Accounts and Audit Regulations for smaller authorities?**

No comments

# Briefing Notes

Audit Committee

Date: 15 January 2014

**Shared Service Governance**

Responsible Officer: Rob Milford (Head of Audit Cotswolds)

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

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

The Committee's forward plan included, for January, an update on the **Shared Service Governance** arrangements. This briefing note provides a summary of the key components of the shared service governance frameworks for various services being delivered through this model of delivery.

Further briefing notes (or reports as appropriate) will be provided to this Committee as shared services reach key milestones or through routine internal audit review work.

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In January 2013 the Head of Audit Cotswolds provided a report on how internal audit engages with the Council's processes and systems to ensure that there is an appropriate form of assurance or consultancy provided in a timely manner to support the governance framework. It also identified some of the other key governance factors considered. This briefing note builds on that report, provides some national background context, and sets out the different governance models in terms of the engagement of Members, Senior Management, Programme Management, Officers, Support Services and other systems involved e.g. Risk Management and Performance Management.

## National Background

In 2007, Ray Tomkinson identified in his book "*Shared Services in Local Government – Improving Service Delivery*" that shared services in Local Government had been growing and he reported that nearly 20% of councils in England were sharing services in 2005/06. He also predicted that, by 2007/08, the number of shared services would have doubled. This was supported by the 2011 Local Government Association (LGA) survey which identified that 62% of councils in England were engaged in shared services at that time.

Tomkinson notes the difficulty in pinpointing when exactly shared services started, but he recognised that since 1997, local government has been developing an approach to local government organising that would retrospectively be termed shared services, as a means of service delivery. The Department of Communities and Local Government (DCLG) in 2007 defined the "shared service" in the following terms:

*"At its widest, a shared services arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function. This implies a very broad range of possible collaborative scenarios. At one end of the spectrum, strategic alliances between local authorities and NHS bodies to commission integrated health and social care. At the other*

*end of the spectrum, explicitly integrated delivery arrangements such as consortia arrangements for the delivery of support services, where staff from several authorities are transferred into a single organisational structure, with a single management team and a single budget, providing services to the participant authorities through a contractual or quasi-contractual (for example, service level agreements) arrangement”.*

A variety of ‘scenarios’ are presented here, aligned on a ‘spectrum’. Taking the last of these, this particular model of delivery can be traced back to the aspirations set out in the Gershon Report of 2004, where increased pressures for efficiency were placed on Local Government. This efficiency imperative was reflected in subsequent resource allocation processes like the Comprehensive Spending Review (CSR). Under the CSR scheme, ‘doing nothing’ in pursuing efficiencies was not deemed an option for local government: the least that could be done was internal restructuring. Shared services represent another, but more active efficiency-oriented option. No choice is entirely a free one, of course. The civic past and the complex patterns of rivalry and co-operation between local authorities are grounded in that, the relations between a local authority and other members of local civil society or the policies of national governmental administrations, all shape local administrative choice.

Shared services have continued to grow and by 2013 at least 95% of Local Authorities in England were sharing services, based on the LGA survey published in November 2013. More and more services are being translated into shared service delivery models, as shown by the LGA survey. These services use a range of different models, from informal arrangements to the creation of new companies and other formalised institutional structures. A map of the shared services from the LGA can be found using the following link (note this is not a comprehensive list of all services currently provided through shared service delivery models for this Council):

[http://www.local.gov.uk/web/guest/productivity/-/journal\\_content/56/10180/3511353/ARTICLE](http://www.local.gov.uk/web/guest/productivity/-/journal_content/56/10180/3511353/ARTICLE)

The Chartered Institute of Public Finance and Accountancy (CIPFA) in 2013 asserts that in general, the shared service options can be split into three broad categories, each of which is characterised by different relationships between the partnering organisations. The following table 1 has been compiled with what CIPFA claims to be notable examples of three delivery models described in column 2. The final column maps these descriptions against some services at CBC.

<i>Ref</i>	<i>Model and examples taken from CIPFA (2013)</i>	<i>CBC</i>
1	<b>Joint working</b> , in which participants try to consolidate functions within existing institutions – the least sophisticated of the three types. This often begins by merging internal services into a single unit, but can be extended to apply across organisations. However, each partner acts independently and retains responsibility for the service in-house. For example, several local authorities might collaborate on commodities procurement and agree to negotiate jointly with suppliers, but they each continue to employ and manage their own purchasing staff.	<i>Joint Core Strategy</i>
2	<b>Principal partner-led</b> , in which one organisation (private or public sector) assumes responsibility for running services for others. One example would be Cardiff Council’s customer contact centre, which also takes calls from businesses in Blaenau Gwent. Insourcing, outsourcing and PFI initiatives also fit into this category.	<i>GO Shared Services</i>  <i>One Legal</i>  <i>Building Control</i>
3	<b>Third party</b> , in which participating bodies decide to establish another organisation to deliver services for them at arm’s length. For example, Liverpool City Council and BT set up a joint venture	<i>Ubico Ltd</i>



	vehicle to consolidate and deliver the council's ICT, procurement and HR services.	
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*It should be noted that this paper only discusses the 'shared services' and not other partnership type engagements where Members and /or Officers can influence other organisations e.g. Gloucestershire Airport.*

## **Shared Service Governance at Cheltenham BC**

The first recognised shared service, Internal Audit, went 'live' on the 30 September 2009, closely followed by Building Control and Legal in October 2009 although under the DCLG definition above there have been others, for example, Cheltenham Borough Homes Ltd. However, since 2009 various services have been developed into a shared service model of delivery e.g. GO Shared Services, Ubico Ltd, Shared ICT, etc. Some have also evolved into different models e.g. internal audit was using a Memorandum of Understanding (MoU) and Secondments, but now operates under a Section 101 agreement (delegation to Cotswold DC). As indicated in the national background information above, the range of models and therefore governance arrangements is heterogeneous. The shared service governance frameworks are captured within key decision documents such as the business case, but not all of the governance is documented some exist in informal processes. However, there are common aspects in the governance frameworks and these are shown below:

### **Developing a Shared Service**

#### **Members engagement**

There are several key points in the shared service development and operation where Members are able to provide input and make decisions that directly impact on the shared service. Tracing the history of shared services at this Council back to its first shared services in 2009/10, the following principles have generally been applied since:

- Establishment of an overarching strategy for change/review of services e.g. Sourcing Strategy and latterly Strategic Commissioning– approved by Members. This also links to the Corporate Strategy that sets out the aims and objectives of CBC for the coming period, Bridging the Gap and the MTFS which are all approved by Members.
- Development of a business case – engagement with Portfolio Holder in the first instance, then presented to Members for decision, this could be as simple as a green light from Cabinet for the shared service to commence e.g. Audit Cotswolds (the Cheltenham & Cotswold Audit Partnership at the time) Cabinet report in 23 June 2009, or one of many steps in the development of a more complex model e.g. GO Shared Services (GO7 at the time) Cabinet report on the 27 October 2009. Each business case is unique to the service but generally cover: aims and objectives, risks, rationale, options considered, costs, performance, affected staff and services, other service or project impacts, timelines and governance.
- Throughout the shared service development there are other engagement opportunities through communications from the various programmes/projects that are developing the shared services e.g. GOSS and Ubico made use of newsletters through their development. More recently, on the 25 September 2013, the Audit Committee received a briefing on the development of the Leisure and Culture Trust governance.
- Other key committees are also engaged through the development/evolution of the shared service e.g. Audit Committee for the expansion of the audit partnership report on the 29 September 2010 before going to Cabinet on the 26 October 2010.
- Where decisions are made by Members the documentation follows the route set down by the CBC Constitution. This will include the details of relevant decision delegations to specific Members and/or Officers.

#### **Senior Management**

The first critical challenge any shared service encounters is that of senior management. This can be in several forms:

- 1-2-1 briefing between the manager/officer attempting to create a shared service and the relevant Director (formerly Assistant Director)
- Networked briefing – where all partners discuss the option e.g. Gloucestershire Chief Finance Officers Group (GCFOG) for GOSS
- Partnership wide briefing – initial meeting of senior managers from potential partners
- Informal discussion – between the affected senior manager and initiating officer
- SLT or Executive Board presentation – where the idea is initially outlined. SLT will also be involved in the initial review of the business case and they monitor the capacity of the organisation to deliver on the changes.
- Commissioning framework – there is a strategic commissioning framework in operation at CBC that helps to structure and steer the processes for the development of shared services.
- Whats in / whats out – senior management will often make the first decision as to what services the shared service will deliver i.e. all of the services originally provided or a defined scope of services
- Unsuccessful shared services - It is also likely to be at senior management level where failed shared service attempts are first reported / discussed e.g. Shared ICT with Tewkesbury BC.
- Members – Senior Management will also provide a link between Members and the shared service under development.
- The other key role that senior management play in many of the shared services is the Client Officer role. This role ensures that CBC interests and objectives are monitored for delivery. For example, GOSS has a Client Officer Group (COG), Audit Cotswolds has a Audit Partnership Board, Ubico Ltd is monitored by a Client Officer, etc.

### Programme Management

This usually is introduced to cover the larger or more challenging shared services under development, such as Ubico, GOSS, Leisure and Culture Trust, etc and links into the commissioning framework. Other smaller or less complex services will operate inline with appropriate project management techniques, but may only have an individual (often the service manager) to run the project e.g. internal audit. These programmes may also include dedicated resources e.g. a programme manager brought in with the sole objective of delivering the programme.

The point at which this commences again will vary from case to case, but in general the programme is set up to implement the service change. Therefore this could be starting from the initial business case development e.g. GOSS, or starting following agreement to the business case that was developed by management e.g. Ubico Ltd.

However there are key trigger points that alert management to the possibility that a programme management system may be required. This includes the requirement to engage other services e.g. Legal, Finance, Audit, in the processes, multiple stakeholders or interested parties, complex ICT systems (hardware/software) that may require experts and systems specifications.

CBC has in place a set of documented principles that outlines project management guidelines and triggers. The document contains CBC's project management guidelines, starting with an explanation of the sort of activity that constitutes a project, and then presenting a formula for determining whether a project is large, complex, or risky enough to warrant 'more rigorous project management

techniques'. The document concludes with recommended project management approaches for the handling of large and small projects.

### Officers

Every shared service will impact on at least one post, sometimes it can impact on hundreds, either directly as the role changes or indirectly where a system they used changes e.g. GOSS and Ubico Ltd. The term post is used in this section as the shared services are constructed through post creation/variation/deletion e.g. sometimes a vacant post is the subject of a shared service as an officer from another organisation delivers the service rather than filling the vacant post.

Transfer of Undertakings (Protection of Employment) (TUPE) is one of the key employee rules applied to the process of shared services where they fall in category 2 or 3 of the CIPFA table shown above. This is also a key engagement point between Human Resources, the Shared Service and Unions. This type of control is linked to the posts that are subject to permanent change.

There are officers that are temporarily drafted in to fulfil a role through the development of the shared services but only until it is operational e.g. programme managers or project leads or back filling for other posts. These can be existing staff or sometimes appointed from external sources.

In whatever manner the officers are engaged in shared service development, they represent one of the critical enablers and/or barriers to the arrangement (based on CIPFA's report in 2010).

### Support Services

As mentioned above some shared services will require involvement of back office / support services. These could include Legal, HR, Audit, Finance, Procurement, Property, etc. CBC operates a capacity monitoring system that captures the amount of resources require for its key projects and this helps SLT prioritise the resource allocation or additional funding.

The interesting factor here is that many of these services are now themselves shared services. Therefore the use of these services in future programmes is carefully considered and the Client Officer Groups (mentioned above) are critical in ensuring that CBC receives the support when necessary.

### Other Systems

What other systems are there? When a Shared Service is being created there is a defined scope of work that new shared service will deliver. In some cases this will be everything it did before, but in others there may be aspects of the service that remain "in-house and unchanged" or what is termed a residual service. There are two clear risks at this point; 1) the residual service is unable to function with the resources and structures that remain, 2) it has not been noticed that there is a residual service. The project scoping will reflect the "out of scope" aspects and this can be used to ensure the residual service is identified and continues to function.

*Risk Management:* This system at CBC in the development stage captures risks in three registers, project, service and corporate. Each register will reflect the risk in its own relevant terms, for example, the project risk may include project staff availability as a risk issue that is not necessarily a risk to the current service or significant enough to be on the corporate register. However, all three registers are reviewed to by the relevant parties to ascertain if they reflect the current position and if the risk is managed within agreed appetites and if not what further mitigating actions or controls can be implemented.

*Performance Management:* This system at CBC monitors the service delivery of objectives. The shared service will develop performance indicators and forecast benefits that once the shared service is operational it can be assessed for delivery of the objectives. One aspect that is monitored during the development of the shared service is the performance of the existing service to ensure

the changes do not have an unacceptable adverse impact on the day to day service delivery. Defining these is crucial to the shared service being able to operate effectively and efficiently in the future, which links to the flexibility of the service.

### **Operating a Shared Service**

#### **Members Engagement**

Once the shared service is 'live' there is an ongoing governance framework in which it operates. Therefore programme/project management ceases and most of the above systems used in the development stage cease. This is where the service '*permanent*' governance structure takes over. There is a variety of agreements setting out the governance arrangements of the shared service concerned and the permanency is also varied. For example, some agreements cover only a short period, such as the MoU for the audit partnership which was only for a year, but others can be for longer the new S101 agreement for the audit partnership is for 10 years.

However, within these documents the manner in which Members are able to engage is captured. Set out below are some of the common forms of engagement structure:

- Joint Members Liaison Group (JMLG) – this features a Member from each partner organisation to set out the strategic direction of the shared service. GOSS, Building Control and One Legal are examples of this model example terms can be found in Cabinet papers in 15 December 2009 for One Legal.
- A dedicated committee, there is one example of this – Audit Committee for the audit partnership. This is unique due to the close relationship between internal audit and the audit committee. As set out in the international standards the internal audit service gains its independence of the organisation through its direct reporting line to the audit committee. The Audit Committee approves the Audit Plan and Charter. Although the service does require Cabinet decisions for certain aspects e.g. the entry of a new partner.
- Joint Committee – The Gloucestershire Joint Waste Committee (GJWC) is an example of this form where Members are appointed to the GJWC to oversee the collection, management, disposal and recycling of waste and street cleansing across four councils.
- Shareholder or Company model – Ubico Ltd is an example of where the Council Leader has retained some decision aspects but other decisions fall to the Board of Directors of the company. In this example O&S Committee also have an ability to hold the Leader, relevant Cabinet Members and Directors of the Company to account for the delivery of services within the scope of the company. This was set out in the Cabinet report 13 October 2011. Examples of this structure in operation can be seen in 18 February 2013 O&S Committee papers regarding the "Suspension of refuse & recycling collections (18 January – 25 January)".
- Portfolio Holder / Cabinet / Council and other committees – Once the shared service is operational there will be certain aspects of the service that are still under the decision-making control of the CBC Members. What remains will be defined in various documents e.g. contracts, business plans, charters, etc. What remains is significant in terms of how much direct control CBC retains. The more informal arrangements (ref 1 under the CIPFA

table above) are likely to have nearly all the control still with Members, but the further down the table the less direct control will be available to Members.

### Senior Management

As mentioned above senior management are likely to be the the first point of contact for the shared service when operational, in particular, the Client Officer(s). Through the client officer route the majority of shared services are monitored. Performance issues (positive or negative) are also often discussed in the first instance with the Client Officer.

There will also be engagement between officers in the shared service and CBC management through the performance of their duties. This in many ways is no different to that of the previous engagement i.e. it is still done through basic communication tools such as email, telephone face-2-face, etc.

### Programme Management

This usually is removed once the new shared service governance and structures are in place and operating. This can be an 'overnight' action or sometimes the programme will run alongside the new service until it stabilises.

One of the key final processes within the programme management is the close down report. This will look to capture lessons learnt and other aspects that can feed into future programmes. One simple example of this is where the report templates of the GO Programme were used by the Ubico Programme, which enabled consistency and helped officers that had been involved with the GO Programme quickly understand the new programme requirements.

However, programme management can be used again in the shared service if it is to go through another change. For example, an upgrade to the ICT software, or a change in the governance framework.

### Officers

Once the shared service is 'live' there may be a change in the employer of the officers, for example, Audit Cotswolds officers are employed by Cotswold DC. However, under the governance agreements the officer should be able to operate effectively at CBC to enable the delivery of the agreed shared service objectives. This is sometimes not as straight forward as it sounds. For example the use of ICT systems and access to these systems is tightly controlled and non-CBC officers (just like CBC officers) are required to complete appropriate access request forms and undertake training on CBC systems. For some officers this may be a requirement for several sites resulting in several access profiles.

Another governance factor that impacts on the officer is the change in job description and therefore the familiarity of the new role. In some services the officer is still physically sitting in the same seat but their roles and responsibilities have fundamentally changed. This can often cause initial confusion with other existing staff when they do not notice the change until they request the service in the same way as they had done before the shared service was live.

The heirarchy is also different once the shared service is 'live' and the appropriate authorisation and accountability routes are different. The accountability can sometimes fall into a network accountability web rather than the traditional vertical hierarchy, as multiple organisations may be involved and the accountably person may be located at another site e.g. the creditors system for CBC is located at Forest of Dean DC.

### Support Services

As mentioned above some of the support services are now operating as a shared service themselves. This has an interesting impact on the governance of the support services in particular the interdependencies between one support service and another. For example the GOSS system is now supported by the Shared ICT system.

Other impacts of the shared service delivery model on CBC can be identified from the business cases, in particular, the benefits to CBC. Although many shared services have cost savings at the heart, there are often other significant benefits e.g. service resilience, expertise, best practice knowledge, etc. This affects the support services in a positive manner as they are able to bring more best practice into the organisation than was readily available in the original delivery model.

In terms of the governance of these support services, there is a management structure that controls the delivery of the shared service, but also there may be key contacts at different sites e.g. GOSS has a 'business partner' type post that is dedicated to the relationship and communication between GOSS and CBC.

### Other Systems

As mentioned in the development of shared services there may be residual services. These will fall under the control of the existing hierarchical structure of CBC. However, once the shared service is operational (sometimes while still under development) the residual service may be review to see if the existing governance structures are adequate. Sometime the residual service will be placed under the control of a new manager/director to ensure it is appropriately managed. This movement can cause some uncertainty and possible drop in performance, but this is monitored and control through existing governance structures.

*Risk Management:* This is a system under control of CBC and its own governance framework. Whether the shared service is underdevelopment, stabilised or ending, the system of Risk Management at CBC will record how the service objective risks are controlled and identify where the risk is in keeping with CBC's appetite or otherwise what actions / controls need to be implemented to treat, tolerate, transfer or terminate the risk.

Within each shared service there will be some form of risk management system whether this is CBC's model or another will depend on the governance framework under which the shared service operates. For example, where a service is hosted by another organisation the service may use that model of risk management, or if it is a third party model it may have its own system. However, CBC will still retain the overall objective of delivering the service and therefore will ultimately seek to control the risks to this objective. Therefore CBC Risk Management systems may still reflect services that are now provided by shared service models.

*Performance Management:* This system is critical to the framework by which CBC ensures service delivery. Within the shared service agreements there will be a framework of PIs and other mechanisms (formal and informal) (e.g. surveys, 1-2-1 meetings) to monitor the performance of the shared service.

It should be recognised that once a service translates into a shared service the service is often far more clearly defined and funded in line with the agreed objectives of the service. This can result in a less flexible service as the shared service now has more than one organisation's set of objectives to meet i.e. it may no longer be possible in some instances to go to an officer and request an action to be undertaken for CBC without expecting some form of prioritisation to take place, this can include additional charges for the work.

### The End or Change of a Shared Service

Not all shared services will be implemented, or if they are, they may not all survive and thrive or be as initially set out in the first business case presented to Members. This can be seen from the Sourcing Strategy presented to Cabinet 27 October 2009 that captures GO7 and Shared ICT with

Tewkesbury BC. However, the governance framework at CBC ensures that Members are updated on the changes and are able to make decisions based on information related to the changes.

Sometimes the governance framework of a shared service will become an issue for the service and the service will need to change the structure to address the issue. An example of this evolution of governance frameworks can be seen from the Audit Cotswolds journey from initially a skills swapping under contract, to MoU and Secondments, to its current governance framework of a Section 101 Agreement – each of these changes was due to the change in demand on the service (the entry of a new partner or client for example).

Also as outlined above the change programmes, and other post event reviews, generate a close down report that captures the lessons learnt and the reasons why events happened the way they did. This enables future improvements to processes and systems. However, as with any service there will always be risks to the delivery of service objectives and sometimes this will crystallize and impact on the service.

### **Summary - The Three Lines of Defence**

In summary, there are generally three layers to the governance of the shared service models and this can be expressed using the 'three lines of defence' analogy from the Chartered Institute of Internal Auditors (2013).

*The first line of defence (functions that own and manage risks – within the shared service)*

This is formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving shared service objectives. Collectively, they should have the necessary knowledge, skills, information, and authority to operate the relevant policies and procedures of risk control. This requires an understanding of the shared service, its objectives, the environment in which it operates, and the risks it faces.

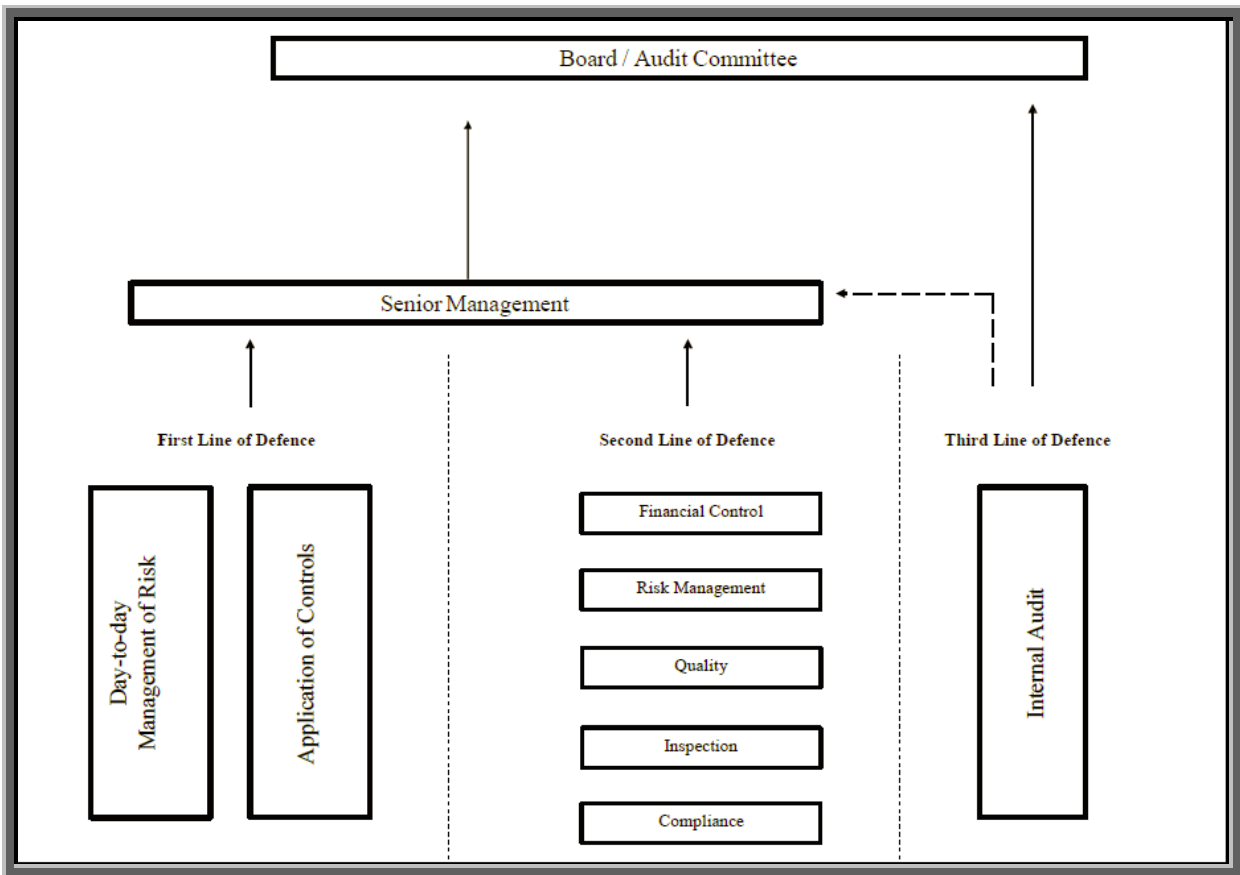
*The second line of defence (functions that oversee risk – both within the shared service and outside)*

This provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. This can include the Client Officer depending on the shared service model.

*The third line of defence (functions that provide independent assurance – outside the shared service)*

This is provided by internal audit, client officers (depending on the shared service model) and other assurance providers. Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines of are operating effectively and advise how they could be improved. Tasked by, and reporting to the board / audit committee, it provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to the organisation's governing body and senior management. It can also give assurance to sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.





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**Local Government Association briefing for the House of Commons Committee Stage of the Local Audit and Accountability Bill: the appointment of auditors**

November 2013



**National appointment of audit**

During the House of Lords stages the Local Government Association (LGA) called for the bill to be amended to allow councils to be able to continue to procure external audit nationally and in so doing avoid the need to establish independent audit appointment panels. **We therefore support the Government amendment NC1 which seeks to provide councils with the flexibility to procure their audit nationally should they wish to do so.**

Recent modelling calculated that central procurement and appointment would save the public purse more than £200 million over a five year period when compared against local appointment. Commenting on the 40 per cent savings secured by the Audit Commission’s latest procurement exercise, the Government’s own Impact Assessment noted that local appointment will not maintain the savings secured by the Audit Commission during the last procurement exercise (paragraph 103, page 36).

In addition, the Government’s Impact Assessment recognises that councils will incur additional compliance costs when they appoint their own auditors. This stems from both the requirement to have independent audit panels and the individual procurement process itself. The Government’s best estimate of these costs is £3.73 million (paragraph 117, page 40). Taking these two factors together it is clear that system of local appointment will be more costly to councils than the current arrangements for national procurement of audit. The cost savings are best illustrated in the below tables.

Option	Total cost (£m) Over 5 year period
Local choice	650
Joint procurement	613
Framework agreement	599
Central procurement (opt in)	550
Central procurement (opt out)	487
Mandated central procurement	445

**Competition**

Local appointment does not necessarily increase competition and access to the audit market. This is because the main barrier to entry for small firms is being able to demonstrate the expertise and public sector knowledge that is required to audit local authorities. They are complex entities and very different to private sector organisations.

The claim that local appointment is more likely to increase competition does not fit with the experience of audit procurement. Nor does it fit with the experience of

**Briefing**

individual body procurement in the Foundation Trust audit market, where fewer suppliers than in the local government market provide audit services, and no small firms have succeeded in winning work. FTI Consulting's report to the Department for Communities and Local Government (DCLG) argued that in using a local choice model would lead to a 'consolidation as big players pick up contracts and market concentration goes back up'. So this independent analysis verifies that local choice is unlikely to lead to a greater number of organisations entering into the audit market.

The eligibility criteria developed by the Financial Reporting Council is rigorous. Those firms wishing to comply with regulatory requirements and compete for local authority audit need to maintain significant investment to ensure that they have the required capabilities. There are currently seven audit firms carrying out local government audit work. In the recent tendering exercise carried out by the Audit Commission, no small firms will be able to meet the standards required.

### **Internal audit and cost**

It is suggested that under a model of local appointment councils will be able to secure better fees as a consequence of having improved their internal audit arrangement. This reduced cost, it is claimed, is not factored into the pricing of the national and local procurement options modelled by the Audit Commission.

It is no longer the case that strong internal audit services can reduce external audit fees significantly. The revised auditing standards encourage external auditors to perform this work for themselves. Experience is that, in practice, external auditors do not place significant reliance on the work of internal audit. Accordingly there is minimal scope for the quality of internal audit to affect the price of external audit.