

## Audit Committee

Wednesday, 18th June, 2014  
6.05 - 8.40 pm

Attendees	
<b>Councillors:</b>	Colin Hay, Matt Babbage, Chris Nelson (Vice-Chair), Dan Murch, Pat Thornton and David Prince
<b>Also in attendance:</b>	Ken Dale, Ruth Jones, Rachel McKinnon, Gary Nejrup, Bryan Parsons, Robin Pritchard, Mark Sheldon and Gary Spencer

### Minutes

#### 1. ELECTION OF CHAIRMAN

Councillor Nelson, Vice Chair, explained that a Chairman had not been elected at Selection Council. He was aware that there had been ongoing discussions regarding the election of an independent Chair and as such, proposed that the committee consider this item after agenda item 6 (Appointment of Independent Members to the Audit Committee).

Given that the committee was not in a position, at this time, to appoint an independent member, it was agreed that the issue of chairmanship would be concluded at a later date. In the meantime the Vice Chair would assume the role of Chairman and noted that at such a time as the committee was ready to consider this matter again, he would appreciate consideration for the role. He confirmed his intention to attend the Grant Thornton summer workshop scheduled for the 4 July.

#### 2. APOLOGIES

Councillor Clucas had given her apologies.

#### 3. DECLARATIONS OF INTEREST

Councillor Hay declared an interest in agenda item 9 (Governance Arrangements for the Leisure and Culture Trust) as a trustee.

#### 4. MINUTES OF THE LAST MEETING

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

Peter Barber, Principal Auditor from Grant Thornton, requested an amendment to the first sentence of Agenda Item 12 (Audit Plan for the year ending 2014). He asked that the text be amended to read; there were 3 main challenge areas set out in the plan covering, financial pressures...

Upon a vote it was unanimously (by those members that had been present at the meeting in March)

**RESOLVED that the minutes, as amended, of the meeting held on the 26 March 2014 be agreed and signed as an accurate record.**

**5. PUBLIC QUESTIONS**

No public questions had been received.

**6. APPOINTMENT OF INDEPENDENT MEMBERS TO THE AUDIT COMMITTEE**

The Director of Resources explained that the committee had been discussing, for some time, the benefits of independent representation, which was increasingly considered as good practice. There was however, no provision within the current terms of reference to allow the committee to appoint independent members. If members were minded to appoint independent members it would need to make onward recommendations to Council, as set out in the report. He acknowledged that no chairman had been elected at Selection Council and felt that it was necessary for the committee to first decide whether it accepted the benefits of independent representation and then make a decision regarding chairmanship separately.

Members accepted that independent representation on the Audit Committee was widely deemed as good practice. There was consensus that benefits would include additional and specific skills and expertise and that this would assist the public perception of the committees independence.

There was some debate regarding the definition of an independent member. Members agreed that existing officers or Members of Cheltenham Borough Council, or close friends or relatives of those persons, should not be considered eligible to apply.

A member felt strongly that in the interest of independence and the perception of independence, this should include those persons that had been an Officer or Member in the last five years. He was aware that the former Chair of the committee who had not stood in the recent elections, had indicated that he would be interested in co-option onto the committee and Chairman. The member felt strongly that any co-opted member should not be a member of a political party, especially one that held the position of chair. In his opinion the chair, by the very nature of the role, would be able to influence the direction discussion and that this could undermine the committee. Other members of the committee felt that it would be difficult enough to find interested representatives with the relevant skills and expertise without limiting eligibility any further than existing officers and Councillors or their friends and family.

The committee were reminded that at this stage they were simply being asked to agree, in principle, for the provision of independent representation on the committee. Council would decide the selection and appointment procedure and the Monitoring Officer, having been authorised to make the relevant changes, could well invite the constitution working group to take a view on this.

The Vice Chair was happy that the comments from this discussion would be included within the report that was taken to Council.

Upon a vote it was unanimously

**RESOLVED that the committee recommends to Council that**

- i. The terms of reference of the Audit Committee be amended to allow it to appoint up to 3 co-optees as non-voting members;**
- ii. It authorises the Borough Solicitor and Monitoring Officer to make any necessary changes to the constitution;**
- iii. It agrees a selection/appointment procedure for appointment of the co-optees.**

## **7. ANNUAL GOVERNANCE STATEMENT**

The Governance, Risk and Compliance Officer introduced the Annual Governance Statement (AGS). He explained that the Council had a statutory duty to prepare the AGS as part of the annual statement of accounts. The committee needed to be satisfied that the AGS fairly reflected the arrangements within the council and that the action plan would address any significant governance issues identified by the review.

This was a lengthy report and covered the previous twelve months of business at the council, including issues and management of risks. The action plan at the back of the report was populated by internal and external audit and progress was monitored throughout the year.

The Governance, Risk and Compliance Officer gave the following answers to questions from members of the committee;

- The audit committee was responsible for reviewing and approving some of the council's policies. The Counter Corruption and Fraud policy was currently being reviewed by officers in order that it could be aligned with the procurement policy. Once complete this would be reported for approval by the committee.
- Unlike the Joint Waste Committee, there was no reference to the Joint Economic Committee. The Governance, Risk and Compliance Officer would speak to the relevant officer regarding what reference was required as he had not been involved in any discussions up to this point.
- The typos that were highlighted would be amended.
- The final report and recommendations into the Wilson (Art Gallery and Museum) had not yet been received and as such this had not been included. Once it had been received and the issues were, the level of associated risk would be assessed and items added as necessary. Until then the specific issues were not evident.
- The council had a robust business continuity plan but as a result of the ICT shared service with the Forest of Dean and the alignment of ICT infrastructure both plans were being challenged and redefined. The council had committed to a 5 year capital investment of 1.3million in to ICT infrastructure. Members were assured that the existing business continuity plan was still in place should an issue arise with the infrastructure and the March 2015 deadline was for the alignment of this plan into a joint plan with the Forest of Dean.
- The action relating to 'safeguarding children and vulnerable adults' was not complete as a lot of training had been delivered by GCC and the training records were still being sourced and pulled together.

The council had purchased a new central system which would automatically identify relevant training, send out policies (requiring the officer to register receipt and carry out a short test to measure understanding).

- UBICO use the council safeguarding policy and their staff were welcome to attend council training. CBH had their own policies and training, given that by their very nature they were more likely to come into contact with children and vulnerable adults. There was a legal requirement for all organisations to have these policies and as part of the AGS process they were required to give assurances to the council regarding compliance with such policies. Audit would report any non-compliance to the council.
- The interim Head of Audit Services confirmed that the significant issue relating to the investigation into weaknesses in the control framework in ICT was being managed by the ICTSS and could be closed. It was felt that March 2015 was somewhat of a default date. Whilst it was likely that a mid-year update would likely report that some actions had been concluded, officers were mindful of resource issues.
- The car parking item was ongoing as this was now subject to an enhanced piece of work to that originally undertaken. Originally the review was focussed on an issue at Regents Arcade car park which had now been expanded to consider the wider enforcement issue. Officers were currently working towards having a report ready for Cabinet in July.

Upon a vote it was unanimously

**RESOLVED that;**

- 1. the Annual Governance Statement be approved and included within the statement of accounts**
- 2. the Leader and Chief Executive be advised to sign the Annual Governance Statement.**

**8. AUDITING STANDARDS - COMMUNICATING WITH THE AUDIT COMMITTEE**

Peter Barber, from Grant Thornton, introduced the item and explained that this formed part of an annual process whereby Grant Thornton sought a formal response from management and 'those charged with governance' regarding actual, suspected or alleged fraud and views on key areas affecting the financial statements. The responses from management had been circulated with the agenda and he noted that Grant Thornton had been very satisfied with the level of detail that had been provided.

Peter Barber offered the following answers to questions from members of the committee;

- The management response to the question regarding 'key events and issues that will have significant impact on the financial statements for 2013/14' would be amended to include the Wilson (Art Gallery and Museum).

- The issues at the cemetery and crematorium were to do with internal controls rather than having any impact on the financial statements and as such this would not be included.

The management response would be used to inform the Audit Committee/Chair response but there was agreement by all that Paul Massey, as Chair for the period in question, 2013/14, would be best placed to formulate this response, if he were happy to do so. Officers agreed to contact Paul Massey and circulate the draft response for comment, by email, between now and the next meeting (September 24).

## **9. GOVERNANCE ARRANGEMENTS FOR LEISURE AND CULTURE TRUST**

Ken Dale, the Business Development Manager, introduced a PowerPoint presentation (Appendix 1) which set out the proposed governance arrangements for the Leisure and Culture Trust. He and the other officers that were in attendance talked through each of the slides.

Officers provided the following answers to questions from members of the committee;

- Potentially, money was the biggest risk, however, the agreed fee would run for five years which was aimed at providing a level of certainty and confidence. From the perspective of the Trust, the council had clearly set out where is expected savings to be achieved as a result of the formation of the Trust and as such, the business plan had had been built around the budget.
- The Trust would have audit arrangements and an audit committee of its own but this committee would need to feel comfortable with the arrangements that were in place and any associated risks. It was important to note that this committee did not receive regular updates on other shared services as the necessary assurances were included in the Annual Governance Statement and annual assurances. As was the case with GOSS, it would be possible to review governance for the Trust at the twelve month stage.
- Performance issues would be picked up by the Overview and Scrutiny Committee.
- Any risks of the trust that escalated to a level whereby they became corporate risks of the council would be reported immediately to this audit committee.

There were no resolutions resulting from this paper.

## **10. AUDIT COMMITTEE UPDATE**

Grant Thornton, External Auditors, introduced the Audit Committee Update. Given the timing, after having finished the interim accounts audit and before the 2013-14 final accounts audit, there had not been a large amount of progress since the last update in March. Page 55/56 set out progress to date and beyond that, the paper aimed to highlight any emerging issues or developments. The challenge questions were a new addition to the update and Grant Thornton thanked management for their responses.

Grant Thornton provided the following responses to member questions;

- The challenge questions were a new concept, generally, feedback had been positive but if members preferred the position statement then Grant Thornton were happy to revert back to that. It was not envisaged that the management response would necessarily address each question comprehensively, nor were the questions posed to create a raft of work for officers. The Council produced performance data and the suggestion was that the committee could ask Overview and Scrutiny to look at a particular issue if these questions highlighted a particular issue or even pass them all of the challenge questions on an annual basis.

There were no resolutions resulting from this paper.

#### **11. AUDIT FEE LETTER 2014/15**

Grant Thornton referred members to the letter as circulated with the agenda, which set out the proposed work programme and associated fees for the ensuing year. They explained that the fee, of just under £65k, had been set by the Audit Commission and had remained at the same level as the previous year.

In response to a member question, Peter Barber advised that the Wilson (Art Gallery and Museum) review had been undertaken outside of Grant Thornton's regular work stream, for which there would be an additional fee. He was aware that there had been a number of issues which had delayed the timescale for this review, which had in turn, delayed the final report. The report would soon be submitted to the Chief Executive and considered by this committee at the meeting in September. Having not been personally involved in the review, the representatives from Grant Thornton were to provide any further advice in relation to the outcome of this review.

There were no resolutions resulting from this paper.

#### **12. INTERNAL AUDIT OPINION - 2013/14**

Robin Pritchard introduced himself to the committee; he was supporting the Head of Audit Cotswolds in his role for a short period. The report summarised the audit activity for the last year and an overall assurance level, which for 2013-14 was satisfactory.

In response to a member question, Robin Pritchard explained that items listed on Appendix 1 of the report (Table of internal audit work in 2013/14) as draft, had not been concluded within the financial year but would be finalised and reported to Audit in September.

There were no resolutions resulting from this paper.

#### **13. COUNTER FRAUD REPORT 2013-14**

Ruth Jones, Senior Benefits Investigation Officer, introduced the Counter Fraud Report 2013-14, inviting members of the committee to make comments as necessary. The report set out the counter-fraud and anti-corruption arrangements and activity for the previous year, with three areas of focus; acknowledge, prevent and pursue.

There were two elements, awareness of the risk of fraud and external fraud, mostly in relation to benefit fraud. Internal Audit had reported that there had

been no internal issues in the last twelve months and as such the focus had been on external (benefit) fraud.

Whilst there were only a small number of issues arise through the course of a year, owing to the proactive anti-fraud culture, it was useful to produce summary and in future this would be sorted by order of importance.

Councillor Hay commended officers for a well produced report.

There were no resolutions resulting from this paper.

**14. WORK PROGRAMME**

The Director of Resources introduced the committee work plan which set out the agenda items for each meeting. He noted that a large proportion of items considered by this committee were cyclical but from time to time there were ad-hoc items for consideration. He acknowledged that the committee often had very full agendas.

The work programme was noted.

The Vice Chair took the opportunity to thank officers for some well written and highly informative reports.

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

No urgent business was raised.

**16. DATE OF NEXT MEETING**

The next meeting was scheduled for 24 September 2014.

**Vice – Chairman**  
Councillor Nelson

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### Cheltenham Leisure and Culture Trust – Governance Arrangements

#### Audit Committee

18 June 2014

Ken Dale – Commissioning Division  
Gary Nejrup – Wellbeing and Culture Division  
Rachel McKinnon – Commissioning Division  
Gary Spencer – One Legal

**CHELTENHAM**  
Leisure & Culture Trust



### This evening's presentation ...

- Cheltenham LCT (CLCT) will be responsible for the operational management and service delivery of Leisure@, Prince of Wales Stadium, Cheltenham Town Hall, Wilson Art Gallery and Museum, Pittville Pump Room, Tourism and Tourist Information Centre, Sport Play and Healthy Lifestyles from October 1<sup>st</sup>.
- CLCT is in the process of developing its corporate governance framework
- CLCT and the Council are agreeing the governance arrangements for the management of the contractual relationships
- We will give you an update on the information shared last year, briefly covering:
  - Trust legal structure
  - Contractual relationship between the Trust, Council and support services providers
  - Trust corporate governance
  - Specification and Proposal
  - Council's Due Diligence
  - Contract governance arrangements
  - Client side management
  - Members' roles
  - Key programme risks

**CHELTENHAM**  
Leisure & Culture Trust



### Trust legal structure

- Charitable company limited by guarantee (CCLG)
- Incorporated 1<sup>st</sup> May 2014
  - Commonly legal form – “trusted brand”
  - Creates a separate legal entity
  - Flexible structure – able to create subsidiary companies, one currently being formed
  - Protection for trustees – company enters into contracts not individual trustees
  - Advantageous structure
  - Trust will be regulated by the Charity Commission and Companies House – highest standards of good governance demanded
- Directors of a charitable company are both directors and trustees and have duties and responsibilities under the Companies Act and Charities Act

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Leisure & Culture Trust



### Contractual relationships

- Including contract / lease relationships between trust and council; between trust and its support providers
- Contract will specify what Trust has to do and standards
- Leases will deal with individual properties e.g. Town Hall

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Leisure & Culture Trust



### Trust corporate governance

- Memorandum & Association of articles
- Trustee code of conduct
- Policies & Procedures
- Charity Commission

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Leisure & Culture Trust



### Specification

- Outcomes based specification
- 3 areas - principles, outcomes, operating standards
- Developed in partnership
- Designed to give trust freedom to deliver the outcomes by being innovative and using its skills, knowledge and expertise

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Leisure & Culture Trust



### Proposal

- Key Activities required by CBC
- How the Trust will deliver
- Target Indicators
- Monitoring



### Due Diligence

- Advice from GOSS regarding due diligence process
- Important to remember this has not been a procurement exercise
- Using the experts across the council
- Evaluation of each of the following
  - HR, Finance, Legal, Insurance, Licencing, Property, governance, H&S, ICT, Audit, Strategy and Engagement



### Contact Governance Framework

- Partnership Board
  - Quarterly
  - Cabinet portfolio holder, Authorised officer, Chair of trustee's , Chief Executive
- Performance meetings
  - Monthly
  - Authorised officer, Client officer, Chief Executive, Relationship officer



### Client-side management

- Formal relationship management between the trust and the council via contract and specification
- Client side monitoring will sit within the Commissioning Team
- Customer complaint monitoring will form key performance measure within the contract
- Suite of performance measurements will be agreed between the trust and the council – currently in development
- More complex outcome-focused indicators will need to be developed over time
- Regular officer meetings – monthly, quarterly and annually
- Seeking a partnership approach



### Members' roles

- **Cabinet**
  - approves the strategic direction for leisure and culture services and approves the outcomes
  - agrees and approves contractual arrangements (including performance standards and governance)
  - receives performance reports via the performance management process
- **Cabinet Lead**
  - defines the strategic and policy direction for leisure and culture services
  - works with the commissioners to develop the contractual arrangements including advising on key elements of the contract and specification
  - will be a member of the formal Partnership Board and will take part in the informal contract governance
- **Overview and scrutiny**
  - will receive the quarterly and annual reports of the Trust's performance (NB it may be determined this should go to Full Council)
  - call the trust to account if required
  - may decide, for example, to undertake a review of how the trust is performing say after the first 12 months of operation.
- **Individual members**
  - will have access to how the trust is performing via reports submitted to O&S
  - will have access to the Trust's annual performance report
  - will, as ward councillors, be asked to direct complaints with service standards or performance to the Trust. The Trust will have a published complaints process. The council will monitor the level of customer complaints as part of the contract monitoring with the trust



### Risks

- **Approach**
  - Programme risks reviewed and managed monthly by programme board
- **Key Risks**
  - Insufficient capacity / lengthening timescales. Agreed budget for executive support and backfill. Ongoing management through programme board and corporate resourcing process
  - Set-up costs exceed budget. Clear accountability for costs at programme board level supported by monitoring and control. Clear justification for additional spend required.
  - Service teams' concerns during transition impact service delivery. Ensure teams fully briefed and consulted. Ensure dialogue between board and service teams.
  - Trust fails to deliver contract. Carry out due diligence. Design and implement robust contract management.
  - Approach to support services. Agree an approach which allows the trust sufficient freedom in sourcing its support services whilst allocating the business / financial risks of moving away from council / partner provision
  - Lack of engagement of members and other key stakeholders. Continue to engage through discussion and presentations



Comments/Questions



## Outcomes

- **People in Cheltenham lead healthier, fulfilling and active lives**
  - People take regular exercise
  - People make lifestyle choices to improve their own health and wellbeing
  - People can participate in activities regardless of age or ability
- **People in Cheltenham are inspired to take part and gain valuable skills and experience**
  - People of all ages learn new skills and develop their knowledge
  - People of all abilities and backgrounds participate in learning activities
  - People contribute to the health and wellbeing of their communities
- **Cheltenham is seen as a world class place to live, work, study and visit**
  - Cheltenham is recognised as an inspiring cultural and tourist destination
  - Cheltenham's heritage & cultural assets and environment are protected, enhanced and enjoyed
  - Cheltenham is open and accessible to all



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