



CHELTENHAM

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 18 June 2014
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Matt Babbage, Flo Clucas, Colin Hay, Dan Murch, Chris Nelson (Vice-Chair), David Prince and Pat Thornton

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

Agenda

1.	ELECTION OF CHAIRMAN	
2.	APOLOGIES	
3.	DECLARATIONS OF INTEREST	
4.	MINUTES OF THE LAST MEETING To approve the minutes of the last meeting held on 26 March 2014	(Pages 1 - 8)
5.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
	ITEMS REQUIRING A DECISION	
6.	APPOINTMENT OF INDEPENDENT MEMBERS TO THE AUDIT COMMITTEE Report of Director of Resources	(Pages 9 - 12)
7.	ANNUAL GOVERNANCE STATEMENT Report of the Governance, Risk and Compliance Officer	(Pages 13 - 38)
8.	AUDITING STANDARDS - COMMUNICATING WITH THE AUDIT COMMITTEE Report of Grant Thornton	(Pages 39 - 50)
	ITEMS FOR DISCUSSION	

9.		GOVERNANCE ARRANGEMENTS FOR LEISURE AND CULTURE TRUST Presentation by Ken Dale	
10.		AUDIT COMMITTEE UPDATE Grant Thornton	(Pages 51 - 62)
11.		AUDIT FEE LETTER 2014/15 Grant Thornton	(Pages 63 - 66)
12.		INTERNAL AUDIT OPINION - 2013/14 Internal Audit	(Pages 67 - 78)
13.		COUNTER FRAUD REPORT 2013-14 Internal Audit	(Pages 79 - 92)
14.		WORK PROGRAMME Review of the work programme for 2014/15	(Pages 93 - 96)
15.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
16.		DATE OF NEXT MEETING	
		BRIEFING NOTES (not for discussion) A guide to local authority accounts	

Contact Officer: Saira Malin, Democracy Officer, 01242 775153
Email: democratic.services@cheltenham.gov.uk

Audit Committee

**Wednesday, 26th March, 2014
6.05 - 8.00 pm**

Attendees	
Councillors:	Paul Massey (Chair), Andrew Chard (Vice-Chair), Colin Hay, Rowena Hay and Pat Thornton
Also in attendance:	Peter Smith, Peter Barber, Mark Sheldon, Bryan Parsons, Councillor Jon Walklett, Giles Rothwell and Ian Watkins

Minutes

- 1. APOLOGIES**
Apologies were received from Councillor Harman.
- 2. DECLARATIONS OF INTEREST**
There were no 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**
There were no public questions.
- 5. INTERNAL AUDIT MONITORING REPORT (INCLUDING PSN UPDATE)**
Ian Watkins, Principal Auditor, Audit Cotswolds introduced the item in the absence of Rob Milford, Audit Partnership Manager. He highlighted the work Internal Audit had undertaken since the last meeting as outlined in section 3.2 of the report and referred to the executive summary of the Bridging the Gap Corporate Strategy Report at Appendix 1 which was work in progress.

The Principal Auditor explained that there was one GOSS report showing the core financials and Audit Cotswolds would be looking at GO specific work with separate assurance ratings for each area which would then feedback to the client group. He also informed that the Chief Executive had commissioned Grant Thornton to undertake a piece of work on the Art Gallery and Museum outturn.

A member felt that in terms of the audit of GOSS as a whole this work should be fed back to the JMLG in order to have a Member view. The Director Resources agreed to take this forward.

RESOLVED

To note the report.

6. ICT BUSINESS CONTINUITY ASSURANCE REPORT

Giles Rothwell, ICT Shared Services Operations Manager, was introduced to the Committee.

The Chair reminded Members that at the last meeting of the Audit Committee on 15 January 2014 they had received a mid-year review of progress against the Significant Issues Action Plan. This report was in response to their request for further assurance with regard to ICT business continuity arrangements and testing.

In response to a question the ICT Operations Manager confirmed that there were referencing environments for all of the council's virtualised services. He explained that it was now necessary for business users to undertake the testing themselves.

In response to a question on the four tiers of recovery in terms of the large gap between tier 1 and tier 2, the Corporate Governance, Risk and Compliance Officer explained that these had been established in May 2012. He referred to the power outages in February 2014 whereby users had experienced no disruption. Should there be a major incident such as a power outage for a five day period there would be a redeployment of staff to the Forest of Dean and priority systems would be run on a skeleton basis as determined by the business continuity team. Other systems would come in over a period of time and this was a documented process.

When asked whether a service level agreement existed between CBC and ICT Shared Services the Corporate Governance, Risk and Compliance Officer stated that a business continuity protocol had been established for all GOSS partners and the JMLG had been involved in the decision making process for this. The Director Resources added that a service catalogue had been created when Cheltenham had originally hosted the Agresso system on behalf of GOSS. All councils in GOSS were required to sign a new general disaster recovery plan and there was now an action for this to be renewed.

Members felt that an annual review of ICT Business Continuity should be programmed in to provide Audit Committee with an assurance. In response the Director Resources made reference to the SWAP discussion in the JMLG whereby Cheltenham was looking at the service continuity plan in terms of the tiering system and the critical people involved. In addition Ubico and the forthcoming Leisure and Culture Trust had to be included. It was agreed by JMLG that these plans should be refreshed so that assurance could be given that disaster recovery arrangements were satisfactory for all clients.

In response to a comment that there should be a faster acceleration process particularly in terms of systems relating to benefits and council tax, the ICT Operations Manager said that this depended on the level of investment. It was possible to have duplicate environments in geographically separate locations but it was a question of the business defining the need to continue operating weighed against the cost of delivering this.

Members were reminded that the major investment in ICT was being rolled out and there had also been staffing issues within the service so it had been a period of upheaval. An action plan would be put in place.

Members agreed that they should keep a watching brief on the situation and receive information from the JMLG.

When asked whether the backup located in the Forest of Dean would be automatic or manual, the Operations Manager explained that there was an element of both. There was very little physically located at CBC and the duplication process was automatic. There was no truly automatic recovery process as bringing the servers back up was manual but very quick.

When asked whether there could be a threat to the ICT systems from a malicious insider, the Corporate Governance, Risk and Compliance Officer stated that a threat assessment had been undertaken as part of the PSN work and was deemed to be of low to medium risk. For information he added that in terms of air conditioning in the server room more equipment had been transferred to the Forest of Dean and as a result the server room was now only at 30 % capacity. Should there be a failure there were spare air conditioning units available. The Director Resources also made reference to the fact that ICT Shared Services had the budget for the purchase of a generator and were currently in the process of testing in order to determine the load.

When asked what would happen should there be a major power outage the Corporate Governance, Risk and Compliance Officer explained that the vast majority of live services were now hosted by the Forest of Dean. With the installation of a generator there would be no loss of service and 2 days fuel for the generator would be kept as a minimum. He also explained that in terms of employees in this scenario they would be deployed home and asked to access the systems remotely.

The Chair thanked those officers present for the concise and informative report.

RESOLVED

To note the report.

7. ANNUAL INTERNAL AUDIT PLAN 2014-15

Ian Watkins, Principal Auditor, Audit Cotswolds, introduced the report which outlined the work planned by Audit Cotswolds, and which was a key component of the Council's governance framework and an assurance source supporting the Annual Governance Statement, which formed part of the statutory accounting standards.

When asked what the objective was of Audit reviewing the performance arrangements at employee level, the Principal Auditor explained that the purpose was to ensure that the performance measures looked reasonable and measurable and that they contributed to improving the process. He added that Internal Audit was expanding beyond its traditional remit but concern was expressed by Members that this type of investigation appeared not to have a final end point and therefore may not actually achieve anything. The Auditor then explained that the Audit partnership was bringing forward ideas in terms of best practice in order to help and assist management to achieve their objectives and when outsourcing it was important that good quality instruction was given in the quality and quantity desired.

The Corporate Governance, Risk and Compliance Officer, explained that the role of the Commissioning team was to monitor client and contract commissioning arrangements, working alongside partner organisations.

When asked to comment on the internal auditor function, the external auditors, Grant Thornton acknowledged that the remit of the internal function had expanded from the focus being on the core financial system to more risk management and performance management activities. He stated that there were examples of this being undertaken elsewhere. He referred to the value for money work Grant Thornton undertook which covered economy, efficiency and effectiveness which all interlinked with the corporate strategy. They would look at specific examples in order to ensure that the same quality of service was being provided for a lower cost. It was obviously not possible to pick up everything; therefore there could be a role for internal audit in performance management, recognising the work that was already being carried out on governance and core financial systems.

In response to a question on fraud reporting and counter fraud advice the Auditor explained that the focus of this work was on housing fraud and was not restricted to the financial aspects but general fraud issues.

A question was raised with regard to social networking and whether, in terms of recruitment, the council looked at the social networking of applicants. In addition it was asked whether the council took a detailed look at accounts held by Council employees. In response the Auditor explained that a social media policy did exist. Internal Audit was not directly involved but they would seek assurances should ICT complaints come forward. The Corporate Governance, Risk and Compliance Officer added that the use of social networking formed part of the Employee Code of Conduct. Members believed this should cover what is reasonable for an employee to communicate in a personal capacity.

RESOLVED

That the Internal Audit Plan for 2014/15 be approved.

8. ANNUAL RISK MANAGEMENT REPORT

The Corporate Governance, Risk and Compliance Officer introduced the annual report of the Council's risk management activities. He explained that the Senior Leadership Team (SLT) reviewed risks in line with the Risk Management Policy on a monthly basis and copies of the risk management report were submitted to Cabinet Members also on a monthly basis so that they had the opportunity to discuss risks with those concerned. Audit Committee Members were also asked to consider the current risk register, an updated version of which was tabled. Reference was made to the corporate risk profile which demonstrated the risk appetite for the authority. The vast majority of risks fell within the amber category. This scorecard included criteria to guide officers and members and the scoring of each risk could be challenged by Cabinet Members at any time.

The Director Resources highlighted to Members that the Risk Management Policy and scorecard had been reviewed as a result of the discussions on the PSN issues and in so doing it was hoped that any ambiguity in the scoring had now been removed.

In response to a question on why the number of risks in the month of December were low, the Corporate Governance, Risk and Compliance Officer explained that this was due to the reporting mechanism as in December there had been no meeting of SLT. He also added that the risk management awareness on line learning module would be updated for the purposes of training newly elected members following the May elections.

The Chair thanked officers for the report and believed that it was useful for the committee to see the risk register periodically.

RESOLVED

To endorse the risk management work undertaken during 2013/14

9. ANNUAL REVIEW OF RISK MANAGEMENT POLICY

The Corporate Governance, Risk and Compliance Officer introduced the report and reminded members that they had considered the methodology for carrying out the review for the Risk Management Policy for 2014/15. The review had now been completed and the results of a questionnaire sent to all Members, SLT and Managers, collated. The policy document attached to the report included the suggestions submitted.

Members discussed the revised policy and pointed out the following :

- The change in the definition of “almost impossible” to “negligible” had not been changed to match the definition in the scorecard
- The column “Action” should be amended to read “Action in response to risk levels”
- Terminology throughout the document should be more consistent

RESOLVED

To approve the Risk Management Policy for 2014

10. REVISED CODE OF CORPORATE GOVERNANCE

The Corporate Governance, Risk and Compliance Officer introduced the report that the Council was required to review the Code of Corporate Governance, based on a SOLACE and CIPFA model, on a regular basis to ensure that it remained up to date and relevant. This year the review had been undertaken by the Corporate Governance Group.

A discussion ensued on Principle 5 and in particular the section on encouraging new members of the authority. The Corporate Governance, Risk and Compliance Officer explained that as part of the transparency agenda the profile of Councillors could be raised in the community more. The Chair added that when looking at the code of corporate governance the focus of Audit Committee should be to ensure that members were in the best place to carry out their governance responsibilities. It was important that the two columns were aligned in this respect. He highlighted that it was the role of the partnership team to encourage communities to engage and generate interest in council business.

The Cabinet Member Corporate Services wished to inform the committee that he had contacted the Democratic Services Manager to investigate ways of attracting more public participation in order to encourage people to become local councillors. The discussions were not advanced but it was recognised that more could be done and that representatives of political parties had a role to play. Members acknowledged that there was a lack of diversity in elected members and good corporate governance would be to have a better cross section. They recognised the role of political parties in the process but it was also important that council business was more easily understood by the public. An example was given of the involvement of young people at senior schools in mock trials to encourage them to consider being a magistrate. This had been successful and involved volunteers and officers. Members recognised there was a resource issue but suggested that the work of other authorities, such as Cornwall, were looked at in this regard.

The Chair thanked Members for their useful comments and suggested that at outturn Cabinet Members should be asked to consider funding a one off event about local engagement/democracy which could add to the good governance of the Council.

RESOLVED

To approve the use of the Local Code of Corporate Governance during 2014-15.

11. AUDIT UPDATE REPORT - YEAR ENDING 31 MARCH 2014

Peter Smith, Audit Manager, Grant Thornton, introduced the report on progress made by the external auditors in delivering its responsibilities to the Council. This included work on auditing the accounts and value for money. Sufficient work had been undertaken for the Audit Plan to be brought to the committee which detailed the results of the interim work. In terms of emerging issues, officers had commented on challenge questions posed by the auditors. Clarification had been sought from Cipfa on how to take Property, Plant and Equipment Valuations forward .

Peter Smith also brought to members' attention two documents published by Grant Thornton- a guide to key financial principal statements and [Working in Tandem](#), a report on alternative forms of service delivery in terms of risk leadership and public communication. A copy of both documents would be made available in the Members Room.

The Chair thanked officers who had provided a management response to the challenge questions. A question was raised on why, in the context of council tax localisation, there was no corporate risk assessment of housing benefit. In response the Director Resources explained that as the cycle moved on this was taken off the corporate risk register.

RESOLVED

To note the report

12. AUDIT PLAN FOR THE YEAR ENDING 2014

Peter Barber, Engagement Lead, Grant Thornton, introduced the Audit Plan and explained that there were 3 specific areas covered-financial pressures, delivery of service redesign and town centre development. He outlined the key developments which were relevant to the council and the audit and the approach taken to the audit. Other risks identified were also referred to. The scope of the audit also covered Group accounts. The findings of the interim audit work were laid down in the report and there were no specific concerns.

When asked by the Chair whether risk based auditing was used on group accounts, Peter Smith, Audit Manager, explained that there was a statutory process for auditing group accounts. A formal statement from the auditors was sent directly to the bodies concerned requesting certain information such as planning and risks so there was an assurance that their audit could be relied upon. He explained further that the audit was targeted so there was a focus on particular items which had a bearing on the Councils group accounts. For example Ubico had specific procedures in specific areas whereas Gloucestershire Airport was less significant in terms of both the value and the impact of the accounts and the risks. The auditors also ensured that the body itself was audited by professional auditors.

RESOLVED

To note the report.

13. WORK PROGRAMME

The work plan was noted.

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

Members gave a vote of thanks to the outgoing Chairman, Councillor Paul Massey, for his most valuable and professional contributions to the work of the Audit Committee.

15. DATE OF NEXT MEETING

18 June 2014

Paul Massey
Chairman

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**Cheltenham Borough Council
Audit Committee – 18 June 2014
Appointment of Independent Members**

Accountable member	Chair of Audit Committee
Accountable officer	Mark Sheldon, Director of Resources
Ward(s) affected	N/A
Significant Decision	No
Executive summary	The Audit Committee has 7 elected members and is politically balanced. This report considers the benefits of appointing independent members to Audit Committee and makes an onward recommendation to Council regarding appointment of non-voting co-optees.
Recommendations	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

Financial implications	If the co-optee was elected as chair then Council would need to determine whether they are eligible to receive the SRA. There would be no cost implications if the level of the SRA remain unchanged. Co-optees on other committees are currently paid travelling expenses but no allowances. Contact officer: Mark Sheldon, Director of Resources, mark.sheldon@cheltenham.gov.uk, 01242 26 4123
Legal implications	Whilst the principle of appointment of co-optees to Committee must be agreed by Council, the actual appointment of co-optees can be made by Committee. Co-optees are not entitled to vote nor do they have a right to attend Council meetings (save in their capacity as a member of the public). In theory, a co-optee can be elected as chairman but they would not have a second or casting vote. They are bound by the Committee Procedure Rules and also the Code of Members' Conduct. Contact officer: peter.lewis@tewkesbury.gov.uk, 01684 272012
HR implications (including learning and organisational development)	<i>None identified at this stage.</i>

Key risks	These should be considered by the Audit Committee before it makes any recommendations to Council.
Corporate and community plan Implications	Strengthening our communities by involving local residents in the democratic process
Environmental and climate change implications	None
Property/Asset Implications	None Contact officer: David Roberts@cheltenham.gov.uk

1. Background

- 1.1 Following the recent borough elections, Council appointed 7 elected members and a Vice Chair of Audit Committee at Selection Council on 2 June 2014. It did not appoint a chair in the expectation that Audit Committee would elect a Chair at its first meeting.
- 1.2 It has been suggested that Audit Committee may benefit from having some independent members as co-optees. These could potentially be a previous member of the committee who is no longer an elected member.
- 1.3 The report to Council in December 2006 made the following reference to co-optees in paragraph 3.14/3.15:

“Often the injection of an external view through co-option can be beneficial; these members of the committee may not have voting rights, which allows flexibility in co-option and retains the decision-making function with permanent members of the audit committee...”

Although not explicit in the guidance the implication is that a dedicated Audit Committee can look to appoint members with skills and interests specific to this area. The committee benefits from Members with financial awareness, independence of thinking and a balanced approach to significant issues and from Members recognising and valuing the audit function. All members of the Committee would be given appropriate training to ensure they could build up their knowledge and expertise.”

- 1.4 There is still a prevalent view nationally that there is value in having co-opted members on the Audit Committee and the Head of Audit Cotswolds is supportive of this approach.

2. Appointment and Selection of independent member

- 2.1 The Audit Committee will need to consider a process for recruiting and appointing elected members. One suggestion would be to advertise the vacancy in the local media or ask Councillors to put forward any nominations. Members would need to determine what skills they think are required and how they would evaluate any applicants.

3. Reasons for recommendations

- 3.1 The report has been brought to the committee as a result of a suggestion from a Group Leader and the advantages are set out in paragraph 1.3.

4. Alternative options considered

- 4.1 Continue with the current make up of the committee.

5. Consultation and feedback

5.1 The Chief Executive has consulted with Group Leaders as part of this process and they felt it was a matter that should be considered by the committee. The importance of a co-opted chair being independent was highlighted and the need for an open appointment process.

6. Performance management –monitoring and review

6.1 Not applicable

Report author	Contact officer: Rosalind Reeves, Democratic Services Manager Rosalind.reeves@cheltenham.gov.uk , 01242 77 4937
Appendices	None
Background information	None

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Cheltenham Borough Council Audit Committee – 18 June 2014 Annual Governance Statement

Accountable member	Councillor Jon Walklett - Cabinet Member Corporate Services
Accountable officer	Mark Sheldon - Director of Resources
Ward(s) affected	None
Key Decision	No
Executive summary	<p>The Council has a statutory duty to prepare an Annual Governance Statement (AGS) (appendix 2) to be approved as part of the annual statement of accounts</p> <p>The AGS is for the period 1st April 2013 to 31st March 2014 and 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 Committee needs to satisfy itself that the AGS fairly reflects the arrangements within the Council, and that the suggested action plan will address the significant governance issues identified by the review.</p>
Recommendations	<ol style="list-style-type: none"> 1. The Audit Committee approve the AGS so that it is included within the statement of accounts, and 2. Recommend to the Leader and Chief Executive Officer that they sign the AGS,

Financial implications	<p>None arising from this report.</p> <p>Contact officer: Mark Sheldon</p> <p>Email: mark.sheldon@cheltenham.gov.uk Tel; 01242 264123</p>
Legal implications	<p>The Statutory context for the Annual governance Statement is as set out in the report there are no other legal implications arising from the recommendations</p> <p>Contact officer: Sara Freckleton</p> <p>Email; Sara.Freckleton@tewkesbury.gov.uk</p> <p>Tel. 01684 272011</p>

<p>HR implications (including learning and organisational development)</p>	<p>Compliance with corporate governance arrangements requires a significant amount of time by both officers and members. Capacity must be kept under review and where significant governance issues occur additional resource to be sourced.</p> <p>Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk, 01242 26355</p>
<p>Property/Asset Implications</p>	<p>None arising from this report</p> <p>Contact officer: David Roberts@cheltenham.gov.uk</p>
<p>Key risks</p>	<p>If the Council fails to have an effective review of its governance arrangements especially during a period when it is continually modernising and improving its services then there is a risk that it will not maintain its good conduct and high ethical standards.</p>
<p>Corporate and community plan Implications</p>	<p>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.</p>
<p>Environmental and climate change implications</p>	<p>None</p>

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, including the arrangements for the management of risk. Following the review the Council must approve an Annual Governance Statement (AGS).
- 1.2 This AGS should be prepared and included as part of the Financial Statements; and that the AGS be authorised by the Leader of the Council and Chief Executive
- 1.3 A draft AGS for the 2013/14 financial year relating to the governance of the Council is attached at Appendix 1. It has been drawn up with regard to the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP). It also has regard to guidance issued by CIPFA/SOLACE in its publication 'Delivering Good Governance in Local Government including its 2012 addendum' and the Council's Code of Corporate Governance.
- 1.4 The AGS highlights where progress has been made in reducing risks within the Council over the period 2013/14 and also highlights where further work is planned in 2014/15 to reduce risk further. This included a review of the Risk management Policy and its approval in March 2014 by the Audit Committee. The ICTSS shared Service also adopted a new process for the identification of threats and risks to its ICT systems and PSN network that complies with HMG Standard Assurance methodology.
- 1.5 It also highlights how the Council

- focused on its purpose and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.
- members and officers worked together to achieve a common purpose with clearly defined functions and roles.
- promoted its values and demonstrated the values of good governance through behaviour.
- took informed and transparent decisions which are subject to effective scrutiny and managing risk.
- developed its capacity and capability of Members and officers to be effective.
- engaged with local people and other stakeholders to ensure robust public accountability
- delivered of services and outcomes through third parties

1.6 The 2013/4 Annual Review

- 1.7** Each March, assurance statements and evidence tables are issued to the Executive Directors and Directors for completion. The evidence tables act as internal control checklists which confirm/review the existence and adequacy of governance and control arrangements, and any significant absence of, or weakness in, the control. The areas covered by the checklist are not exhaustive and any other significant weaknesses must be reported in the Certificate of Assurance. Executive Directors and Directors have the responsibility for the completion of the Certificates.
- 1.8** The AGS is a statement regarding the review of governance that has taken place and a description of the governance frameworks that have been put in place such as the work of the Audit Committee,
- 1.9** Once complete, the evidence tables and the Certificates are reviewed by the Director of Resources, Audit Cotswolds Head of Internal Audit and the Governance, Risk and Compliance Officer to identify any governance or control improvements which should be included in the action plan for the forthcoming year. They also draw on evidence from internal and external audit reports, and other relevant evidence. The AGS is considered by the Senior Leadership Team and the Corporate Governance Group before it is submitted to this committee ahead of its for approval as part of the process for preparation of the Statement of Accounts.
- 1.10** The process has identified a number of control issues, and these are highlighted in the AGS. Officers will work with the respective Directors to produce an action plan with key milestones which address these issues. The corporate governance group will monitor progress and will report back to the audit committee.
- 1.11** In 2010, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its *Statement on the Role of the Chief Financial Officer (Section 151 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.
- 1.12** In December 2013 the Audit Commission published a report stating that that our External Auditors had found that we had not met this requirement of the Local Authority Code as we did not include the relevant disclosure in our AGS. This was reported to the Audit Committee in January 2014.
- 1.13** The AGS for 2013 – 14 includes the following statement which should address this ;

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.

2. Reasons for recommendations

2.1 The AGS will form part of the Annual Statement of Accounts that will be considered by the Audit Committee for approval on the 24th September 2014.

3. Alternative options considered

3.1 None

4. Consultation and feedback

4.1 The results of the annual assurance review have been considered by the Senior Leadership Team and the Corporate Governance Group.

5. Performance management –monitoring and review

5.1 A monitoring report will be brought to Audit Committee in January 2015

Report author	Contact officer: Bryan parsons Email; bryan.parsons@cheltenham.gov.uk, Tel; 01242 264189
Appendices	1. Risk Assessment 2. Annual Governance Statement
Background information	1. None

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 Audit Committee fails to recommend the approval of an Annual Governance Statement then it could delay the publishing of the Councils annual accounts.	Director of Corporate Resources	18/6/2014	3	2	6	Reduce	Prepare an Annual governance Statement based upon the review of its governance framework	18/6/2014	Corporate Governance, Risk and Compliance officer	
<p>Explanatory notes</p> <p>Impact – 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>Likelihood – 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>Control - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											

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Cheltenham Borough Council

Annual Governance Statement 2013 – 2014

Scope of responsibility.

1. Cheltenham Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. There are legal and formal controls in place to ensure that it is clear who is accountable for money and governance at the local level. The Local Government Act of 1972 and 2000 (as amended). The Cabinet is responsible for proposing the policy framework and budget to Council, once agreed; the Cabinet then goes on to implement those decisions.
3. In discharging this overall responsibility, Cheltenham Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions as defined by the constitution, and the management of risk.
4. Cheltenham Borough Council has approved and adopted a Code of Corporate Governance (CCG), which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. It also complies with additional guidance issued within an addendum to the framework in December 2012, which includes advice on how the Annual Governance Statement should give an increased emphasis on the Councils strategic approach.
5. A copy of the local Code of Corporate Governance (CCG) can be downloaded from the Council's website or a copy can be obtained from the Municipal Offices, Promenade, Cheltenham Gloucestershire GL50 9SA.
6. This statement explains how Cheltenham Borough Council has complied with the code and also meets the requirements of regulation 4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

The purpose of the CCG – the Governance Framework

7. The governance framework comprises the systems, processes, culture and values, by which we direct and control our activities and through which we account to, engage with and lead the community. It enables us to monitor the achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
8. The internal controls are a significant part of the framework to support the management of risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise risks to support the achievement of our objectives and actions.
9. The CCG for the period commencing 1st April 2013 was reviewed by the Corporate Governance Group and approved by the Audit Committee in March 2013.

The Governance Framework

10. The CCG identifies 6 principles that underpin the effective governance of the Council, and these have been used when assessing the adequacy of its governance arrangements. The main elements that contribute to these arrangements are set out below:

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

11. Cheltenham Borough Council has a 5 year Corporate Strategy (2010 -15) which clearly articulates how the Council will deliver better outcomes for the community either directly or in partnership.
12. The Corporate Strategy Action Plan is updated on an annual basis to reflect new priorities and any issues which have arisen since it was approved to provide a clear work programme based on priorities for the Council. This document is approved by Council. Monitoring reports are considered by the Senior Leadership Team and taken to meetings of the overview and scrutiny committee to ensure that the Council's objectives are progressing as planned.
13. The Corporate Strategy sets out its vision for the long-term future of Cheltenham;

“We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations.”
14. This vision and its relevance are considered and challenged every year as part of the overall development of the Corporate Strategy Action Plan.
15. The Council agreed in June 2010 to adopt a strategic commissioning approach to put a strong focus on understanding the needs of Cheltenham and its people in designing outcomes for our services. This approach has meant that we work much more closely (including sharing budgets where appropriate) with other parts of the public service and the voluntary and community sector (VCS) including the making of objective, transparent, evidence-based decisions about how services should be provided and by whom.
16. We are now recognised as a commissioning council that puts a strong focus on understanding the needs of Cheltenham and its people
17. The Leader of Cheltenham Borough Council is a Board member of Gloucestershire Local Enterprise Partnership (LEP) whose key aim is to support growth and the creation of private sector jobs in the area. The partnership covers the district council areas of Cheltenham, Cotswold, Forest of Dean, Gloucester, Stroud and Tewkesbury.
18. The Cheltenham Development Task Force brings together the private, public and voluntary sectors in partnership, as the way to progress the challenges and opportunities to improve the town for its citizens and businesses. The Task Force is led by its Managing Director who is an employee of Cheltenham Borough Council. The Councils Chief Executive chairs the Task Force Risk and Accountability Group which monitors the management of its key strategic risks,
19. The remit of the Task Force is to consider specific issues or sites and recommend action to Cheltenham Borough and Gloucestershire County Council. Recent development work based upon the recommendations of the Task Force have been;
 - Disposal of North Place and Portland Street car parks for a mixed use scheme, including 143 housing units, a 600 space car park and foodstore. The sale receipt will allow other town centre opportunities to be realised subject to Council agreement of capital strategy.

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- Supporting the Albion Street development - regeneration of the site for a housing led scheme based upon a former garage and redundant cinema site.
 - Supporting the Brewery phase 2 – a commercial led regeneration scheme on the High Street that will improve connectivity between the High street and Brewery phase 1.
 - Supporting the Cheltenham transport plan – based upon a successful funding bid of £4.9m from the DfT Local Sustainable Transport Fund. This aims to deliver modal shift through improvements to pedestrian and cycle facilities, personalised travel planning, and traffic flow adjustments that will help improve public spaces in the town centre, such as Boots Corner
 - Developing options for the relocation of CBC in order to reduce operating costs and creating commercial opportunities for the existing iconic Municipal Offices in support of the long term vibrancy of the town centre
 - Successfully bidding to the Gloucestershire Local Transport Body for funding towards a major improvement to Cheltenham Spa Railway Station
20. When developing outcomes for our services by using a strategic commissioning approach we are seeking to improve the outcomes for people who rely on the Council and the wider public sector whilst at the same time creating opportunities for financial savings.

Commissioning

21. During 2012/13 there were 5 key commissioning reviews;
- Leisure and Culture services (ongoing)
 - Green Environment (ongoing)
 - Public protection and private sector housing (now incorporated in the ERST review below)
 - Environmental and regulatory service transformation (beginning)
 - Revenues and Benefits (option appraisal)
22. These reviews broadly followed the commissioning cycle and where possible took advantage of opportunities to deliver services more effectively with partners.
23. The council is creating a new charitable trust to operate its leisure, culture and tourism services. The trust is charged with delivering the outcomes set by Cabinet and generating significant financial benefits. Following a successful recruitment process a representative and highly skilled group of 12 trustees have been selected and are working closely with the council ahead of the October 1st 2014 launch date. On that day, current staff will transfer to the trust and the trust will deliver a range of outcomes for leisure, culture and tourism and take on the operation of Leisure@ Cheltenham, Prince of Wales Stadium, Cheltenham Town Hall, Pittville Pump Room and the Wilson Art Gallery and Museum as well as the council's leisure and arts outreach services. The buildings themselves will continue to be owned by the council but leased to the trust.
24. The contract between the trust and Council will be monitored by the Councils Client officers and progress will be reported in this statement next year
25. Cheltenham Borough Council and Cotswold District Council formed a Local Authority Company (Ubico) from April 2012 and from April 2013 joined the Gloucestershire Joint Waste Committee. There is potential for other local authorities to join in the future. This will

provide the opportunity for improving outcomes and value for money within Cheltenham and the wider partnership area.

26. The Cabinet agreed a Medium Term Financial Strategy which is in line with the priorities as set out in the Council's Corporate Strategy and identifies any expenditure which may need to be incurred to meet new legislation, community needs and financial restraints. In order to address year on year budget shortfalls, efficiency savings and new or improved income, the Council has described within its Budget Strategy how it will broadly achieve the budget gap target while keeping Council tax at a reasonable level. Each year the Council looks to areas where it can make its efficiency savings, budget cuts or gain additional income, by not impacting on its ability to deliver in priority areas.
27. The Joint Core Strategy (JCS) is a partnership between Gloucester City Council, Cheltenham Borough Council, and Tewkesbury Borough Council, supported by Gloucestershire County Council. The JCS was formed to produce a co-ordinated strategic development plan to show how this area will develop during the period up to 2031. The JCS is steered by officers and elected members from each of the three local authorities. The Pre-Submission Joint Core Strategy April 2014 document was agreed by each of the three Councils and will be published during summer 2014 for consultation.

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

28. The Council's Constitution defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication and decision making. The Council Leader has allocated executive functions to himself, Cabinet Members, Cabinet and officers and those functions are undertaken in accordance with the Council's Budget and the Policy Framework (which includes the 5 year Corporate Strategy).
29. The Council's Constitution and Policy Framework are approved by Council, and is subject to periodic review. The Council has a cross party Constitution Working Group comprising of elected Members and is supported by officers.
30. The Council has evolved over the last few years to become a commissioner of services - predominantly commissioning from shared arrangements set up with other local authorities. The result is that the Council is now much smaller in terms of directly employed staff and has a smaller budget to support those remaining directly provided services.
31. In the light of this the Chief Executive exercised his power as Head of Paid Service under s4 Local Government and Housing Act 1989 and recommended to Council a restructuring of the senior management structure and the approval of authority for the Borough Solicitor to make any necessary amendments to the Councils Constitution. Prior to the submission of the report the Head of Paid Service consulted with the Leader and Cabinet in accordance with the Employment Rules.
32. The Council approved the recommendations for the restructuring resulting in the removal of one Executive Director post in March 2014 and a Director post in October 2014 – which at current costs and in accordance with Council policy and statutory entitlement would, on an ongoing basis, save nearly £220,000 per annum
33. The outcome of this reorganisation was reported to all Council employees in July 2013 and to the public shortly afterwards in the local press.
34. The Council has an Overview and Scrutiny committee that aims to:-
 - support the Council in achieving its vision and delivery of its Corporate Strategy

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- promote open and transparent decision-making, democratic accountability and to hold the Cabinet to account for its actions
 - achieve positive outcomes for the people of Cheltenham by monitoring and challenging service delivery to ensure it meets customer needs and encourage innovation and good practice
35. The Overview and Scrutiny Committee is responsible for ensuring that the overview and scrutiny process is operating effectively and is making a difference for local people. The committee's role includes commissioning scrutiny task groups.
36. Scrutiny task groups are set up by the Overview and Scrutiny Committee to examine specific issues in detail and they tend to work more flexibly and informally. The review could be of an existing policy or service but scrutiny task-groups can also look to develop new policies. Their terms of reference are set by the main committee and the task group reports are reviewed by that committee before forwarding their recommendations to Cabinet or other body as appropriate.
37. To promote the work of the Overview and Scrutiny Committee and the Scrutiny Task Groups the Democratic Services Unit have published a range of guidance documents on the Councils Website.
38. There were 5 new scrutiny task groups set up to look at
- Cemetery and Crematorium
 - Section 106 agreements - Planning obligations
 - Dog Fouling
 - Deprivation
 - ICT- network issues.
39. The Audit Committee meets four times per year and its terms of reference are set out in the Council's Constitution. The Council's external auditors Grant Thornton have access to the committee, and the committee also has responsibility for overseeing the risk management process. A review of the Risk Management Policy including the Risk Scorecard took place in March 2014.
40. The Localism Act 2011 abolished the statutory national standards framework for elected Members and removed the requirement for a Statutory Standards committee. In May the Council approved its Code of Members' Conduct, its arrangements for the consideration and determination of complaints and decided to retain a Standard Committee.
41. During 2013/14 the Standards Committee met and considered;
- A new Planning Code of Conduct
 - The Localism Act 2011 - implementation of conduct regime
 - CBC Code of Members' Conduct – Applications for dispensations in respect of interests
42. The Terms of Reference are published on the website for this committee and provides clear guidance upon what the committee can and cannot consider. The agendas and minutes for these meetings are published.
43. The Appointments Committee conducts the recruitment, assessment and interview process for the appointment of the Chief Executive, Executive Directors and Directors. It is also

responsible for determining the conditions on which those officers hold office, including deciding matters relating to their early retirement.

44. The Council has a Chief Executive who is the Head of Paid Service; which is a statutory role as defined within the Local Government and Housing Act 1989. The Chief Executive co-ordinates the Council's activities, including its management structure, the number of staff employed and the salary grades of chief officers. He also;
 - ensures that the strategic aims of the council are clear and reflect our vision, values and the needs of the people of Cheltenham;
 - leads the delivery of services
 - provides leadership and direction to the staff
 - positions the organisation to meet current and future challenges
 - leads, develops and continually improves corporate strategy, policy and organisational culture across the Council
 - promotes strategic partnerships across Cheltenham, the County of Gloucestershire and beyond, to ensure the development of shared commitment and capacity.
45. A pay policy statement is required to be produced annually under section 38 of the Localism Act. The Council agreed its 2013/14 statement in March 2014 which is available to employees through the intranet and to the public through the internet.
46. Article 2 of the Constitution refers to the roles and functions of elected Members while Article 12 refers to the roles and responsibilities of the statutory officers. The Code of Conduct for all employees was last revised in March 2014.
47. The Council appointed the Borough Solicitor as Monitoring Officer. The Monitoring Officer function ensures compliance with established policies, procedures, laws and regulations. The Monitoring Officer reports to the Council, after consulting with the Head of Paid Service (Chief Executive) and Director of Corporate Resources (section 151 officer), if any proposal, decision or omission would give rise to unlawfulness or maladministration.
48. To ensure compliance with the Financial Procedure Rules set out in the constitution, the Council has designated the Director of Corporate Resources as Section 151 officer (Chief Finance Officer). 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.
49. The Executive Board and the Senior Leadership Team have clear terms of reference and provide guidance and advice to Members on policy options and implications. All public reports identify options, the financial, and legal and HR implications as well as any risks associated with the issue.
50. The Council's internal audit function is provided by Audit Cotswolds which reports to the Council's Audit Committee. In September 2009 the Audit & Assurance Services for Cheltenham Borough Council entered into a partnership with the Internal Audit Services at

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Cotswold District Council. This was expanded in 2010 to include West Oxfordshire District Council. Audit Cotswolds is managed by a Partnership Board with its own Terms of Reference through a Section 101 Agreement and representatives from each authority.

51. The Audit Cotswolds partnership is managed by the Head of Internal Audit whose role has been defined in the S101 and a job description; both of which help to ensure the CIPFA 'Role of the Head of Audit' standard is delivered as set out below:
 - Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments
 - Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control
 - Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee
 - Must lead and direct an internal audit service that is resourced to be fit for purpose
 - Must be professionally qualified and suitably experienced
52. Annually the Head of Internal Audit produces a report summarising the work of Internal Audit (IA) and gives an overall opinion on the level of internal control that exists within the systems audited.
53. From October 2012 the external audit function has been provided by Grant Thornton. In September 2013 they published their report to those charged with governance (ISA 260) where they confirmed that there were no issues to report and
 - *that it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007; and*
 - *that it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.*
54. The Council has a Corporate Governance Group with agreed Terms of Reference and is chaired by the Chief Executive. It reviews the effectiveness of the Council's internal controls and reports the results to the Audit Committee.
55. The Council has a Treasury Management Panel with cross party support from Members that oversees the Council's Treasury Management Strategy and an Asset Management Working Group that oversees the way in which the Council manages its property assets in line with the Medium Term Financial Strategy.
56. The Council's policies are easily accessible to employees and Members on the intranet and they are also provided with update/briefing seminars as appropriate. Policies are being developed in co-operation with our partners and elected Members so that there is a consistent approach to their application.

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

57. The Council has adopted a series of nine values that underpin everything it does; these are promoted to staff and Members on the intranet and were incorporated into the Council's competency framework which forms part of the annual appraisal of employees.

58. The Cheltenham Futures Programme included a work stream for the review of the appraisal process which was led by the Deputy Chief Executive and involved consultation with the SLT, senior managers and staff. The outcome is an easier more focussed process to meet the needs of a commissioning council.
59. Members and officers must declare any interests and registers of such declarations are maintained by Democratic Services and HR respectively. The Council's Monitoring Officer is responsible for ensuring that reported breaches of the Code of Members' Conduct are determined appropriately. The Code of Members' Conduct was reviewed in June 2012 in the light of the abolition of the national standards framework.
60. The Chief Executive, members of the Senior Leadership Team and the Corporate Governance Group routinely promote good governance messages to employees and elected Members via email and the intranet.
61. The Council's Whistle Blowing Policy was revised in August 2010 and its Anti-Fraud and Anti-Corruption Policy was replaced by the Counter Corruption and Fraud Policy in September 2012 to align them with the requirements of the new Bribery Act and the working arrangements of Audit Cotswolds. These documents are available to the public on the Council web site, and accessible to Members and employees from the intranet site.
62. There is a competency framework for its employees who are assessed through the annual appraisal process and these competencies reflect the core values of the Council which underpin good governance arrangements.
63. Certain Members are appointed to represent the Council on outside bodies i.e. companies, charities and unincorporated associations. The Council's Constitution includes guidance to officers and Members who take an active part in these organisations.
64. This guidance reflects best practice and to the CBC Code of Members' Conduct. The Guidance includes a checklist of issues that should be considered in the event of being nominated to an outside body. Members and officers that sit on the boards of companies are expected to be trained in line with the guidance specified within the UK Corporate Governance Code.

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

65. Most of the day-to-day decision making powers of the Authority rest with the Cabinet whilst the full Council is responsible for high level matters such as approving the Budget and policies and strategies within the Policy Framework and appointing the Leader.
66. The Cabinet consists of the Leader and six other Councillors with specific portfolios of responsibilities. When major decisions are to be discussed or made, these are published in the Cabinet's Forward Plan in so far as they can be anticipated. If these decisions are to be discussed with council officers at a meeting of the Cabinet, this will generally be open for the public to attend except where exempt or confidential matters are being discussed
67. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the Budget or Policy Framework, this must usually be referred to the Council to decide. Cabinet Members may make individual executive decisions with regard to matters in their portfolios in so far as such is delegated to them by the Leader.
68. The Authority has an Overview and Scrutiny Committee and this, usually through task groups, scrutinises the work and decisions of the Authority. The Committee also has power to call – in those decisions of Cabinet and Cabinet Members which have been made but not yet taken effect.

69. All reports that make recommendations to Council or Cabinet are supported by a risk assessment based upon the methodology in the Councils Risk management policy. The Risk management Policy is agreed by the Audit Committee and the Senior Leadership team own and maintain the Corporate Risk Register which is reported to Cabinet Members on a regular basis
70. In February 2013, Cabinet and Council members met to discuss the final budget report for 2013/14. The Government had announced that it would cut on-going support to the Council by a further £762k in 2013/14 which cumulatively equated to a £4.2m cut since 2009/10. As a result, the Council had to identify, prioritise and make savings to meet this funding gap.
71. The Council has embraced the government's transparency agenda and regularly publishes information on spending, contracts, senior officer roles and responsibilities together with their salaries. Arrangements are also in place for publishing all Council committees' agendas and minutes.
72. The Council has agreed data sharing protocols with all the Gloucestershire authorities, GO Shared Service, Cheltenham Borough Homes, Ubico and the Gloucestershire Joint Waste Committee, Cheltenham Borough Homes which allows for the sharing of data between the organisations and provides arrangements for making sure that it remains secure.
73. The Council has a complaints and comments system for members of the public. Complainants may also refer matters to the Local Government Ombudsman for investigation once they have been through the Council's complaint system.
74. The Council agreed and published guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at Council or the matter being considered by Overview and Scrutiny Committee.
75. During 2013/14 there were 4 e'Petitions received by the Council that were managed through its website;
76. The Council has a performance monitoring system which provides up to date information as to how the Council is performing against a number of performance measures and milestones, including those set out in the Corporate Strategy and Action Plan.
77. The Audit Committee annually reviews the Corporate Risk Management Policy and a report on the risk management activities that have taken place during the year. The policy was agreed by Audit Committee in March 2013.
78. In December 2013 the full Council debated the scoring of the risks associated with the Councils Public Sector Network (PSN) assessment as a result of which the Council review its Risk management Policy and Score Card.
79. This review was carried out during January and February 2014 and involved officers and Members. The outcome from the review was considered by the Audit Committee in March 2014 and a revised Policy and scorecard were approved for use during 2014/15.
80. The PSN risks identified through this process are managed by the ICT Shared Service and monitored by the Security Working Group (SWG) which is chaired by the Chief Executive who is designated the Councils Senior Information Risk Officer. The SWG has an agreed Terms of Reference and reports its progress on managing these risks through the ICTSS Joint Management Liaison Group and to the Senior Leadership Team.
81. The Senior Leadership Team are responsible for the management of the corporate risk process, including the identification of risks, mitigating actions, deadlines and the details of the responsible officers. These are updated and reported to them on a monthly basis. Divisional risks are the responsibility of Directors and individual service managers. Any

divisional risk that has corporate implications and scores 16 or over is escalated to the Senior Leadership Team for consideration.

82. The Information Management Group reviewed a range of policies including Data Quality and Record Management Policy. The Council put in place Data Sharing Protocols that reflect partnership working and the sharing (where appropriate) of information with other organisations.
83. The membership of the Information Management Group was revised during 2014 to include a wider group of officers so that it jointly considered the management of information with CBC, CBH and UBICO.
84. Cheltenham Borough Council's budget is set annually and agreed by Council. Monitoring reports are presented to Cabinet and an Outturn Report and Annual Statement Of Accounts is approved by the Audit Committee.

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

85. All Members and officers are subject to codes of conduct and periodically training sessions are held. A wide range of training and briefings were made available to all Members including;
 - Council size and electoral cycle working group.
 - Making Asset-based Community Development work
 - Presentation of latest household projections
 - Social Media Training
 - ICT Member Seminar
 - Objectively Assessed Need and Potential JCS Strategic Sites
 - Member Seminar JCS
 - Licensing Committee Training - Scrap Metal Dealers Act 2013
 - Commissioning Seminar
 - Commissioned Services Seminar
 - Cheltenham LCT Trust - Member Seminar
 - Licensing Member Training - Sexual Entertainment Venues
86. Members also have access to the Learning Gateway and can attend any training course that is currently being offered to employees.
87. Officer learning and development needs are identified through the appraisal process and 1-2-1s and fed into the professional and corporate training programmes. A wide range of facilitated and self awareness training programmes are available through the Learning Gateway for all employees and Members
88. In addition to supporting delivery of the Council's Corporate Strategy during 2013-14 the Chief Executive Officer continued to push forward the Cheltenham Futures programme to build on the progress of commissioning services from external providers. This programme of work continues to deliver improvements for the organisation including the restructuring of the Senior Leadership team.
89. This programme comprises of three work streams, one of which considers the council's performance and organisational culture. This includes organisational culture, pay and reward. Work on culture and behaviours (review of competencies) is underway, linked to

appraisal's as is work on how best to ensure that pay and conditions continue to attract, retain and reward employees of Cheltenham Council in the future.

90. The other two themes to the strategic based Futures programme are;
1. Direct Council Provision/Unified Management
 - To provide for the management of services currently part of
 - Wellbeing and Culture but not part of the Leisure and Culture review
 - To deliver efficiency savings
 - To establish a permanent service structure.
 2. Central Services
 - To 'right size' the Resources and Commissioning divisions to meet future Council requirements
 - To introduce service failure scenario and risk planning
91. The programme will create a Council whose function, form and culture is being adapted to the strategic and operational needs of its customers and of a commissioning organisation.

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

92. Cheltenham Borough Council, through the Cabinet is accountable for allocating resources. There are a range of internal checks and systems in place to provide assurance that they achieve value for money.
93. Councillors have to make judgements about what 'value for money' means in local terms and where available resources need to be allocated to match what their communities need. These decisions are based on a range of information, including consultation exercises and advice from officers.
94. In 2007, the Council agreed the building of a new extension and the refurbishment of the existing Art Gallery and Museum. The total project costs for the Development Scheme were estimated at £6.3 million. This project was completed and the Art Gallery and Museum re-opened to public acclaim on the 5 October 2013 under the new brand name of 'The Wilson'.
95. The complexities of extending new buildings to adjoining listed buildings led to delays, increased project costs and, since fund raising activity is still underway, a shortfall in funding at the time of the out-turn report to Cabinet and Council in February 2014.
96. The report acknowledged this over-spend and highlighted that internal audit had been commissioned to identify any weaknesses in the control, monitoring and approval mechanisms supporting this project and to understand how the Council might have been better informed about the likely cost overrun providing an opportunity to take corrective action. Following on from the meeting the Head of Internal Audit discussed the scope of this work with the Section 151 officer and it was decided that its External Auditor, Grant Thornton should carry out the review; this will be completed during 2014.
97. Council agreed to set aside a further allocation of capital receipts (from the sale of Midwinter allotments) by £360,000 to £1,282,000 to address this shortfall
98. Cheltenham Borough Council engages with local residents via a number of different mechanisms; council officers and elected members attend regular meetings of the 14 neighbourhood co-ordination groups where local priorities for action are agreed by local residents, the council also supports and engages with 11 "Friends of..." groups, plus resident associations, trader associations and PACT (Partners and Communities Together)

groups. The Council also supports and engages with communities of interest via groups such as the Cheltenham Pensioners Forum and the Sahara Saheli women's group.

99. Cheltenham Borough Council engages with stakeholders who represent the local community and with the key service providers through the well established Cheltenham Partnership whose vision is that;

“All people in Cheltenham are able to live happy, successful and productive lives in strong, resilient and healthy communities”.

100. The Council contributes towards providing strategic leadership for Cheltenham through the partnership structures, ensuring that we use our resources carefully to make the greatest difference to people's lives through aligning our commissioning arrangements.
101. The three main elements of the structure are:
- Positive Participation Partnership
 - Positive Lives Partnership
 - Strategic Leadership Group
102. The Cheltenham Partnership has agreed an Action Plan which identifies the most-pressing issues for partnership activity. It also identifies where there is a willingness from partners to work collectively on solutions and where there is alignment with priorities set at a county level e.g. by the Police and Crime Commissioner, the Health and Wellbeing Board, the Children's Partnership and the Local Enterprise Partnership.
103. The Council's Corporate Strategy Action Plan includes specific commitments to support the delivery of these priorities.
104. The Council has an established web site which was visited 433,420 during 2013-14 and a total of 2,559,177 pages were viewed. We took steps to improve the interactive nature of the website by developing systems that allow improved access to Council services and information. Members of the public used the 'Report It' function 458 times to bring issues to the attention of the Council

Delivery of services and outcomes through third parties

105. The Council formed a partnership with Cotswold District Council for the delivery of environment services using the Local Authority Company governance framework; the company is called Ubico Ltd. There is potential for other local authorities to join in the future. This will provide the opportunity for improving outcomes and value for money within the wider partnership area. This approach provided the first step towards joined up waste services across Gloucestershire.
106. Ubico Ltd has its own internal control procedures and arrangements which are subject to internal and external audit. Annually, Audit Cotswolds review elements of the control procedures and report on the adequacy of arrangements. The company is overseen by a board of directors.
107. In October 2012 the Council agreed with Cotswold District Council, Forest of Dean District Council and Gloucestershire County Council to form the Gloucestershire Joint Waste Committee (GJWC) from the 1st April 2013. In July 2013 it agreed a business plan for next 5 years which outlines key priorities and actions for the next five years. The critical purpose of this plan is to provide a mandate for the GJWC to consider and make decisions, according to set governance and budgetary principles, without constant reference back to the partner authorities. The agenda and minutes for this committee are published on the Gloucestershire County Council website.

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108. Cheltenham Borough Council's Cabinet agreed in July 2011 to partner with three other councils, West Oxford DC, Forest of Dean DC, and Cotswold DC - to implement a new shared service called the GO Shared Service (GOSS) covering Finance, Procurement, Human Resources, Corporate Health & Safety, Learning & Organisational Development and Payroll. Employees involved in the provision of these services transferred (TUPE) into the employment of Cotswold District Council (as the employing council) from April 2012.
109. The GO Shared Service partnership continued to develop its service provision and provide savings during 2013/14:
110. GOSS Human Resources (HR) delivered the core business as usual for the Council, and in addition, projects including Pensions Automatic Enrolment, work to comply with the new Baseline Personnel Security Standard, and Local Government Pension Scheme 2014 implementation.
111. GOSS HR service also provided support to key commissioning projects, restructures, and numerous change programmes (e.g. Housing, Leisure and Culture Trust), and Cheltenham Futures projects including the senior management review, and appraisal & core competencies redesign, and commenced work on a reward and recognition approach. GOSS helped the Council retain accreditation of the Investors in People Standard.
112. The main emphasis of work for the GOSS Finance teams has been on finalisation of the budgets for 2014/15 and preparation for the 2013/14 financial year-end. The team also continued to: provide support to relevant local authorities with decisions relating to the recovery of Icelandic Banking Investments, supported Cheltenham Borough Homes Ltd New Build programme and supported various projects within the Cheltenham Futures programme.
113. One of the largest projects that GOSS is supporting is the establishment of the new Cheltenham Leisure and Cultural Services Trust. The Trustees, supported by the executive team, have been considering the GOSS bid and have agreed in principle to procure HR, Payroll and Finance services from GOSS from October 2014. A decision on whether to take H&S and Learning & OD services is due to be made in July.
114. The Financial Rules were reviewed with the GOSS Partnership and approved by Council in October 2011. The new Rules allow greater conformity across the partnership organisations when processing work or customer accounts. Also, the Contract Rules were reviewed on the same basis and approved by Council in March 2012. Both sets of Rules took effect from 1st April 2012.
115. The Council's internal audit function is provided by Audit Cotswolds which reports to the Council's Audit Committee. The Head of Audit Cotswolds is responsible for the Council's internal audit arrangements, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion.
116. The Council delivers its housing management responsibilities through Cheltenham Borough Homes (CBH) an 'arms length management organisation' and wholly owned company of the Council. CBH has its own internal control procedures and arrangements which are subject to internal and external audit (as well as independent inspection). Annually, Audit Cotswolds review elements of the control procedures and report on the adequacy of arrangements. The company is overseen by a board of directors which includes tenants and has an Audit and Risk Committee.
117. On 1 December 2013 the housing options team transferred to CBH. This gives them an opportunity to develop within a focused housing delivery environment. The housing options team is one of the top performing for reducing homelessness across the country and will compliment CBH's work.

118. The cabinet and board members along with senior officers from both organisations periodically meet to undertake “bluesky” thinking and to talk about the strategic direction of CBH and improvements for tenants and the wider community.
119. The Building Control Service was formed with Tewkesbury Borough Council during November 2009 under the governance framework of a Section 101 Agreement for a 10 year period. There is a Joint Monitoring and Liaison Group made up of representatives from both authorities who monitor and manage the operational delivery of the service.
120. The Building Control Service is in the process of carrying out mid term review to measure the performance in respect of the initial objectives identified when the partnership was formed.
121. The 2013/14 Building Control budget anticipated a net trading surplus of £80,800 (before support service costs and including the annual savings share from TBC). The provisional outturn demonstrates this has been overachieved, generating a net trading surplus of £108,301.32, a variance of £27,501.31
122. The Council is a 50% shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the Companies Act. There is a board of directors which monitors the company’s performance and is responsible for internal control activities. The airport has a Board of Directors including a Managing Director and Head of Operations. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and shareholders; they are approved at the AGM. The Council’s Director of Corporate Resources or designated representative receives regular management accounts for the airport,
123. Gloucestershire Airport hosts an Airport Consultative Committee whose purpose is to foster and maintain the best possible relations with local communities and other interest groups, including the shareholders. The committee has agreed terms of reference that include the contribution of the airport to the local, regional and national economy.
124. The Localism Act 2011 provides for a Community Right to Challenge and for a Community Right to Bid. The Council has published a process that allows eligible groups to express an interest in bidding to run a particular Council service. The Council has also published a process on the Community Right To Bid which aims to give community and voluntary sector groups, charities, parish and town Councils a right to identify a property that is believed to be of value to their social interests or social wellbeing and gives them a fair chance to make a bid to buy the property on the open market if the property owner decides to sell. There was one application for a community right to bid in 2014.

Review of effectiveness

125. Cheltenham Borough Council has responsibility under The Accounts and Audit (England) Regulations 2011 for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control and the arrangements for the management of risk. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Cotswolds annual opinion report and also by comments made by the external auditors and other review agencies and inspectorates.
126. The effectiveness of the governance framework draws on evidence from:
 - Internal and external audit and inspection
 - Financial controls
 - Risk and performance management
 - Assurance statements from each division

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- Assurance statement from other service providers
 - Assurance Statement from Gloucestershire Airport
 - Legal standards
 - Code of corporate governance.
127. The Council has an approved CCG which was reviewed in April 2013 and it has established a Corporate Governance Group which oversees the review of the effectiveness of the CCG governance and internal control. All executive directors and directors have to complete an Annual Statement of Assurance which outlines the key control areas to which the division should comply.
128. There were 45 areas of control considered by each of the 3 Directors resulting in 180 comments, of which 130 (72%) were deemed to have been Met, 37 (21%) were Partial, 2 (1%) Not Met and 11 (6%) were regarded as being not applicable. Overall full compliance was down compared with the previous year however a number of criteria were considered to be Not Applicable this may be due to the changing nature of the way we deliver services and consideration will be given to this for next years review.
129. The review highlighted the need for consideration to be given to readily available management information in respect of the recording of internal declarations, training requirements, what had been delivered and what refresher training was still required. This improved during the year with a new process for recording declarations of interest from employees. There was also a new register set up for recording of declarations in respect of Gifts, Hospitality and Sponsorship.
130. In addition to the internal review of the effectiveness of the governance framework we also drew on evidence from Client Officers in respect of compliance with agreements with Ubico, Cheltenham Borough Homes, ICT Shared Services, the GOSS Partnership and Gloucestershire Airport.
131. The outcome of these external reviews were that the;
- Director of Commissioning was asked to review the effectiveness of internal controls In respect of the services delivered to Cheltenham Borough Council by Ubico Ltd. There were no new significant issues of concern.
 - Director of Commissioning who is the client officer was asked to review the effectiveness of internal controls In respect of the services delivered to Cheltenham Borough Council by CBH. There were no significant issues of concern.
 - Director of Corporate Resources was asked to get assurance in respect the ICT Shared Service from the Forest of Dean District Council. This assurance was provided and identified 3 key areas of focus for the forthcoming year. These are discussed further on in this section.
 - The Deputy Chief Executive who is the client officer was asked to review of the effectiveness of internal controls In respect of the Gloucestershire Airport. Concerns about compliance with the Articles of Association were raised with the Managing Director in particular with regard to authority to borrow. Clarification on issues relating to Safeguarding are still under discussion with their Managing Director. Also to note, following a review of the airport's operations, commissioned by Gloucester City, a commercial review of the airport is currently underway which will make recommendations regarding future airport governance.
132. The Finance and HR functions are delivered through the GO Shared Service; Cotswold District Council is the lead authority. The Internal Audit function is provided through the Audit Cotswolds partnership, Cotswold District Council is again the lead authority and will need to comply with their Code of Corporate Governance to meet the requirements of regulation

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4(3) and (4) of The Accounts and Audit (England) Regulations 2011 in relation to the publication of their Annual Governance Statement.

133. A copy of Cotswold District Council assurance statements for these services has been requested, together with the details of any significant issues that they identify. If there are any issues that affect this Council's internal controls and statutory obligations they will be reported to Audit Committee for inclusion on the Significant Issues Action Plan.
134. The Legal services function is delivered through a Section 101 Agreement with Tewkesbury Borough Council which is the lead authority for One Legal. The effectiveness of the governance arrangements of One Legal are monitored on a regular basis through a number of means including; One Legal management team meetings, Head of Legal Services attending Cheltenham's Senior Leadership Team, periodic meetings with Cheltenham's Client Officer and formal reporting to the JMLG. JMLG meetings have taken place on 6 July 2012, 8 November 2012 and 21 February 2013. The Head Legal Service meets on a routine basis with the client officer to discuss performance and operational issues. In addition, One Legal also formally report quarterly on business and financial performance through Tewkesbury Borough Councils' performance management framework.
135. An assurance review of the One Legal service was carried out on behalf of Tewkesbury Borough Council by the Borough Solicitor - One Legal Lead Officer. A copy of the Assurance Statement 2013/14 was provided to Cheltenham Borough Council which stated that the governance arrangements were operating effectively within One Legal. Improvements to the service had been identified but were not considered to be significant governance issues.
136. The ICT Shared Service (ICTSS) between Cheltenham Borough Council and Forest of Dean District Council went live on 01 April 2013 and the service is provided under an agreement pursuant to s101 Local Government Act 1972. The shared service was created following a commissioning review by Cheltenham Borough Council and Forest of Dean District Council (FoDDC) adopted the role of lead authority.
137. The Forest of Dean District Council is therefore responsible for ensuring:
 - its ICTSS business is conducted in accordance with the law and proper standards;
 - public money is safeguarded and properly accounted for;
 - public money is used economically, efficiently and effectively; and
 - there is a sound system of governance, incorporating the system of internal control.
138. CBC Cabinet agreed an ICT Infrastructure Upgrade Strategy including a 5 year capital investment of £1.3m to enable the improvements to take place. This investment is being delivered through a rolling programme of work by ICTSS shared services and is being monitored by the CBC Client Officer (Director Corporate Resources) and the Joint Management Liaison Group (JMLG) which includes offices and Members from both authorities.
139. In discharging these responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and including arrangements for the management of risk. In respect of identifying ICT Risks Threats and Treatments to the Public Service Network (PSN) the ICTSS has adopted the HMG Information Standard Assurance Numbers 1 & 2 methodology for this process.
140. This methodology was used to address issues raised through the 2013 PSN assurance submission process. These issues were reported to Audit Committee and Council; they were also the subject of an ICT Scrutiny Working Group review.

141. The CBC ICT PSN risks and other matters relating to Information Security are managed by the Security Working Group (SWG) which is chaired by the Chief Executive in his role as the Council's Senior Information Risk Officer. This group has a documented Terms of Reference (ToR) which was agreed by the Senior Leadership Team. The FoDDC council has its own SWG for managing FoDDC risks. The Two Councils also have a joint SWG that meets on a bi-monthly basis to consider the risks and issues that are common to both Councils; this also has a documented ToR.
142. FoDDC undertook their own review of effectiveness of the ICTSS and have identified a number of Focus Area for the forthcoming year;

Focus Area		Planned actions
1	Disaster Recovery	<ul style="list-style-type: none"> ➤ Complete ICT disaster recovery (DR) plan; ➤ Ensure Corporate disaster recovery and business continuity plans link to the DR plan; ➤ Install back-up generator.
2	Service Level Agreements	<ul style="list-style-type: none"> ➤ Continue to develop JMLG to monitor costs and performance of ICTSS; ➤ Refresh the Service Level Agreements and charging mechanism.
3	Information Security	<ul style="list-style-type: none"> ➤ Complete 2014 Public Services Network (PSN) submissions ➤ Provide annual refresher training for all members and staff on information security; ➤ Introduce the revised HMG classifications for protective marking.

143. FoDDC have provided assurance that these steps will address the needs identified in our review of effectiveness and further improve governance arrangements at the ICT Shared Service. These will be monitored by the appropriate SWG.
144. The Corporate Governance Group reviews the statements and any issues highlighted by the check lists to identify any significant issues that need to be reflected in the Significant Issues Action Plan. Individual Directors are expected to take forward any specific control improvements within their own service plan. These certificates along with evidence from other sources such as audit letters, internal audit reports, corporate controls and the Code Of Corporate Governance are reviewed by the Director of Corporate Resources, Head of Audit Cotswolds and the Governance, Risk and Compliance Officer who identify control issues to be included in the annual governance Significant Issues Action Plan for the forthcoming year.
145. The Audit Committee considers the Annual Governance Statement as part of the Statement of Accounts and makes recommendations to Council regarding its approval. The Audit Committee are then responsible for monitoring progress against the actions proposed or taken, to deal with the identified significant issues.
146. Although internal control procedures are the responsibility of officers, major service issues, budgets and risks are discussed with the relevant Cabinet Member. There is also a Cabinet Member who has responsibility within their portfolio for corporate governance, internal audit and risk. Regular briefings are held by Directors with that Cabinet Member so that they are aware of any issues.
147. The Head of Audit Cotswolds Annual Audit Opinion identified that overall there is a satisfactory opinion relating to the Councils framework for risk management, governance and control, confirming that appropriate action or progress has been made in relation to previously identified issues.

Significant governance issues

148. The Senior Leadership Team and the Audit Committee have been advised on the implications of the result of the review of the effectiveness of the governance framework

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identified in the previous section of this statement, and an action plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant Issues Action Plan – Review 1st March 2014

Significant Issues Action Plan – Review 1st March 2014

Control issue	Action	Deadline as per AGS	Action planned and EoY position	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	<p>Deliver ICT Business Continuity back up arrangements through ICT shared service with FoDDC that have been tried and tested.</p> <p>End of year position. Business Continuity for the ICT Shared Service has been reviewed by South West Audit Partnership for. Senior officers from both authorities are reviewing the arrangements for individual authorities and developing a shared approach to Business Continuity.</p> <p>Recommend that this issue be redlined based upon internal audit recommendations and carried forward with a deadline of March 2015.</p>	Director of Corporate Resources
Safeguarding Children and Vulnerable Adults	<ol style="list-style-type: none"> 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. Hold a register of acknowledgements for all employees, casual staff, volunteers and elected members that they have read and understood the Safeguarding Children and Vulnerable Adults handbook. 	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>End of year position The manager reports that the declaration process is in place and that training records are being pulled together but are not complete.</p> <p>It is recommended that this issue is carried forward to March 2015</p>	Strategy and Engagement Manager
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	<p>A follow-up review has been conducted by Internal Audit in 2013/14 as part of the annual review work. Significant progress has been managed by the Client Officer Group and any further ongoing issues relating to Cheltenham will be reported to Audit Committee during the current year.</p> <p>End of year position Internal Audit are satisfied that that this issues can be closed because of the continuing progress by the Shared service</p>	GO Shared Services

Control issue	Action	Deadline as per AGS	Action planned and EoY position	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	<p>The Audit Committee has been reviewing the Action Plan every six months.</p> <p>A series of follow up reviews has been completed by Audit Cotswolds with the outcome that assurance can be provided regarding the satisfactory completion of the agreed action plan.</p> <p>End of year position Internal Audit are satisfied that that this issues can be closed because of the continuing progress by the Shared service</p>	ICT Service
Car parking Services	An internal Audit Assurance report has identified a number of issues relating to the management of the car parking services impacting on income and operational effectiveness	March 2015	<p>New Issue A Cabinet report is being finalised with recommendations based on the Internal Audit assurance report to address weaknesses within the way that car parking services are managed.</p> <p>Corporate Governance Group received a position statement from the service in March 2014 highlighting the work that is being undertaken</p>	Head of public Protection

Significant governance issues

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

Signed: On behalf of Cheltenham Borough Council

Leader of Council

Chief Executive

.....
Councillor Steve Jordan

.....
Andrew North

Mr Mark Sheldon
Director of Resources
Cheltenham Borough Council
Municipal Officers
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9 June 2014

Dear Mark

**Cheltenham Borough Council Financial Statements for the year end
31 March 2014**

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulations. We are also required to make inquiries of both management and 'those charged with governance' as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document management's view on some key areas affecting the financial statements

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the appended schedule entitled 'Fraud, laws and regulations – management responses'. In completing this task, you may wish to take into account the views of other senior officers at the Council where you think appropriate. The schedule relates to operational issues as well as the financial statements.

In preparing your responses, it would assist me greatly if you could include a summary of evidence that you have relied on to inform your responses. In addition, please document any sources of assurance which confirm relevant management controls have operated effectively throughout the financial year to date and will operate up to the date the accounts are approved.

For information, (as in previous years) we are also required to make enquiries of Members and I enclose a letter and schedule of questions for the new Audit Committee Chair. Could I ask that you pass this onto him. We suggest that it would be useful to co-ordinate and discuss both the Members' and management responses in time for discussion at the next Audit Committee meeting on 18 June 2014.

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A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

As always, please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Peter Barber
Associate Director and Engagement Lead
For Grant Thornton UK LLP

Responses from Management:

Auditor question	Response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2013/14?	Auction of Icelandic bank deposit with Lanbdsbanki. Sale of North Place and Portland street car parks Local retention of business rates and business rates pooling within Gloucestershire.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Annually the GOSS review the accounting policies which accompany the accounts during the perpetration of the statement of accounts. I do not believe there are any events which may cause a change in policies.
Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Annually, GOSS request that service managers highlight any change in regulatory environment. None of the responses result in any significant impact on the financial statements.
How would you assess the quality of the Council's internal control processes?	The Councils Annual Governance Statement is based upon an annual review of its internal controls and the work of internal audit. The Corporate governance group have considered the governance arrangements in place for each of the council's service areas and One legal provides advice to officers on the separation of duties in respect of decision making. The governance structures within each of the shared services have been designed to ensure that decision making is transparent and based upon sound audit principles. Audit Cotswolds Head of Internal Audit provides the Audit Committee with monitoring reports which provide a level of assurance for the Council and for partners within shared services.
How would you assess the process for reviewing the effectiveness of internal control?	Rely on audit reports and the Annual Governance Statement including officer annual declarations which cover internal control.
How do the Council's risk management processes link to financial reporting?	The council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the corporate risk register which is reviewed monthly by SLT prior to circulating to Cabinet. All reports to committees require financial implications to be identified and include a template for financial risk to be identified and scored using a new risk scorecard which has been developed to strengthen the assessment process in response to members requests. The Section 151 Officer produces a risk based review of the annual budget which is included in the budget papers for consideration ahead of the budget setting discussion and debate.

<p>How would you assess the Council's arrangements for identifying and responding to the risk of fraud?</p>	<p>As from June 2013 Internal Audit will be producing an annual Fraud Report for Audit Committee</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>There have been no frauds reported to Audit Committee from the Head of Internal Audit for 2013/14. However, there have been "frauds" investigated by the Revenues & Benefits Fraud Team that has resulted in prosecutions or penalties etc.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Head of the Audit Partnership considers that the risk of "customer fraud" is increasing due to ongoing economic pressures, but that the likelihood is still low and the impact should not increase the material misstatement in the financial statements.</p> <p>There is no specific suspicion that fraud is occurring within any council service but Internal Audit have identified areas that are at risk within its Audit Plan and target resources accordingly.</p> <p>As indicated in the response to question 1 there is an increased risk of "fraud" generally and as such Internal Audit has been working with the Benefit Fraud team to establish a potential Counter Fraud Unit with the specific purpose of pro-actively reducing this risk in 2014/15.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>No</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>This aspect has been included in annual opinion reports by the Head of Internal Audit. As from June 2013 there will be a separate report from the Head of Internal Audit on Counter Fraud activity.</p>
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>SLT receive a reports on the level of compliance on declarations of interest and for returns on Gifts, Hospitality and Sponsorship, areas of weakness are identified and raised with specific Directors and Service managers.</p> <p>Intranet articles highlight the need for declarations of interest to be made and provide advice in respect of offers of Gifts, hospitality and sponsorship.</p> <p>The council's employee and elected Member induction training programmes include the Whistle blowing policy and copies of this policy are available on the intranet which includes</p>

	<p>examples of the issues that can be reported. The Council has a publicised Whistle Blowing Policy and an Anti Fraud and Corruption Policy both of which are on the intranet and internet.</p> <p>Employees are asked to complete an annual declaration of interest form and advised through the employee Code of Conduct that amendments must be brought to the attention of their Director</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Use advice from insurance advisors to assess value of local provision for excesses. Other liabilities identified locally include MMI write off provision (See statement of accounts)
Is there any use of financial instruments, including derivatives?	No
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
Are you aware of any guarantee contracts?	No
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>There have been no frauds reported to Audit Committee from the Head of Internal Audit for 2013/14. However, there have been “frauds” investigated by the Revenues & Benefits Fraud Team that has resulted in prosecutions or penalties etc.</p> <p>As from June 2013 Internal Audit will be producing an annual Fraud Report for Audit Committee</p> <p>The Head of the Audit Partnership considers that the risk of “customer fraud” is increasing due to ongoing economic pressures, but that the likelihood is still low and the impact should not increase the material misstatement in the financial statements.</p> <p>There is no specific suspicion that fraud is occurring within any council service but Internal Audit have identified areas that are at risk within its Audit Plan and target resources accordingly.</p> <p>As indicated in the response to question 1 there is an increased risk of “fraud” generally and as such Internal Audit has been working with the Benefit Fraud team to establish a potential Counter Fraud Unit with the specific purpose of pro-actively reducing this risk in 2014/15.</p>
Are you aware of any instances of non-compliance with laws or regulations or is the Council's on notice of any such possible instances of non-compliance?	The Council's S151 officer Directors and Managers ensure that all legal requirements are met. Assurance is gained from internal controls the audit process, VAT and treasury advisers.

	<p>All of the reports to Cabinet, Committee and Council include legal financial and HR implications which are completed by the relevant professional officer.</p> <p>All Directors complete an annual assurance review of their Directorates which includes compliance with legislation and regulation. The Audit Committee is advised by the Council's S.151 Officer, Internal Audit and the Corporate Governance, Risk and Compliance officer who provide assurance regarding compliance with laws, regulation and financial rules They bring any issues to the attention of the Committee and provide updates on progress against any appropriate action plans.</p> <p>There is a standard section within all reports to Council, Cabinet and Audit Committee for Legal, Finance and HR to identify the relevant</p> <p>No non-compliance since April 2013</p>
<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>No</p>
<p>Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p>	<p>No</p>
<p>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>PPE valuations are made by an External Valuer (Non Dwellings) and Internal Valuer (Dwellings) in line with RICS guidance.</p> <p>A revaluation of assets is carried out on every 5 year.</p> <p>The Valuer's are asked to consider whether there has been any impairments of assets in year</p> <p>The remaining UEL of an asset is calculated by the Internal Valuer every 5 years following the RICS guidance. Depreciation is then calculated on a straight line basis in line with IAS 16</p> <p>For pensions reliance on information provided by actuary about assumptions on population and future economic growth.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>No</p>
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p>	<p>???</p>

<p>Management is required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>The council is a local authority, receiving annual government grant settlements and contributions as well as taxation and income for goods and services provided. Please refer to the accounting concepts note in the statement of accounts. A balanced and deliverable budget was approved by Council on 14th February 2014 which is reviewed and assessed for robustness by the Section 151 officer</p> <p>The budget and annual plan are aligned and are worked on in tandem to ensure funding is available to deliver the councils aspirations. No. Regular monitoring, of which cabinet is notified formally on a quarterly basis, has not identified any issues.</p> <p>The annual preparation process ensures that policy changes are dealt with.</p> <p>The Head of Paid Service challenges the Councils Management Structure and reports and amendments to Council. The training /skill needs of all employees are assessed through an appraisal scheme.</p> <p>Capacity is recognised as a Corporate Risk and is identified with the Corporate Risk Register which is monitored by SLT on a monthly basis. SLT also receive and consider a Capacity/Resource plan every quarter.</p> <p>The annual budget setting process considers any shortfall in staffing capacity and may include request for additional funding to support additional staffing to fulfil objectives e.g. one off resource to support the creation of the Leisure and culture trust in 2014/15 budget.</p>
<p>Can you provide details of those solicitors utilised by the Council's during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>None as far as the Council is aware.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Capita, Treasury Management Advisors – general treasury management advise</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No</p>

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Cllr
Chair of the Audit Committee
Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 9SA

9 June 2014

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Dear Councillor

**Cheltenham Borough Council Financial Statements for the year end 31
March 2014 -
Understanding how the Members gains assurance from management**

To comply with International Auditing Standards, we need to establish an understanding of how Members gain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Audit Committee with your responses to the following questions.

- 1 How does the Audit Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

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I have appended a schedule entitled 'Responses from Management' which explores these areas in more detail. For information, we are also required to make similar enquiries of management and recently sent a letter and schedule of questions to Mark Sheldon in his capacity as the Section 151 Officer.

We suggest that it would be useful to co-ordinate and discuss the Members' and management responses at the next Audit Committee meeting on 18 June 2014.

As always, please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Peter Barber
Associate Director and Engagement Lead
For Grant Thornton UK LLP

Response from Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to Members?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How does the Audit Committee encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

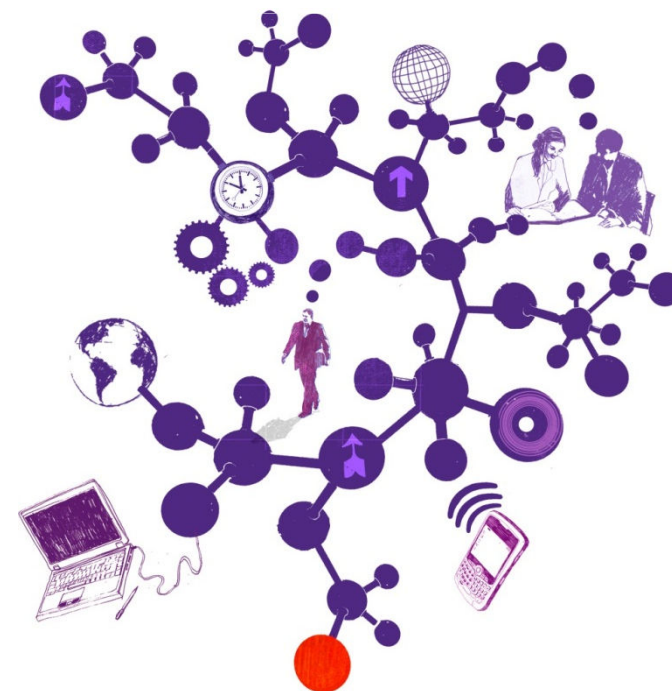
Audit Committee Update for Cheltenham Borough Council

Year ended 31 March 2014

30 May 2014

Peter Barber
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Audit Manager
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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
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website 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 – "Reaping the benefits: first impressions of the impact of welfare reform", "2016 Tipping Point – Challenging the current?", 2014 – "Responding to the Challenge – Alternative Delivery methods in Local Government", '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.

Peter Barber Engagement Lead T +44 (0)1173 057 897 M +44 (0) 7880 456122 peter.a.barber@uk.gt.com

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Progress at 30 May 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan 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>	March 2014	Yes	Our audit plan was agreed with officers at our liaison meeting on 10 March 2014 and was taken to the Audit Committee on 26 March.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February – March 2014	Yes	Our interim visit is now complete and there are no issues arising to date which require reporting to the Audit Committee
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July – August 2014	No	We have not yet started our detailed audit work for 2013-14.

Progress at 30 May 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VFM conclusion comprises:</p> <ul style="list-style-type: none"> •a initial risk assessment; •a detailed review of arrangements against the criteria; •bringing forward knowledge from previous auditors; •reviewing key documents; and •discussion with officers. 	August 2014	No	<p>Our work will be focussed on the two criteria specified by the Audit Commission i.e.</p> <ul style="list-style-type: none"> -The organisation has proper arrangements in place for securing financial resilience; and -The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>We will provide a report setting out the findings from our work on the Financial Resilience criteria.</p>
<p>Other areas of work – Certification of claims and returns</p> <ul style="list-style-type: none"> •Housing and Council Tax Benefits claim 	November 2013	No	<p>We have not yet started our detailed audit work for 2013-14. We do not expect an NNDR claim this year and our work on Council Tax benefit as part of the Housing and Council Tax Benefits claim will be reduced following changes in the Council tax system.</p>
<p>Other activity undertaken</p>			<p>The Grant Thornton review of the reasons for the overspend on the Museum and Art Gallery refurbishment project is underway and a report will be taken to a future Audit Committee.</p>

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Supporting this guide we have produced two further documents to support members in discharging their responsibilities

- helping local authorities prepare clear and concise financial statements
- approving the minimum revenue provision

Copies of these are available from your engagement lead and audit manager

Challenge question

Have members referred to this guidance?

Management response

Annually members receive a presentation on the format and content of the annual accounts which covers these points. However, officers will use the guide to review the approach to training and guidance in the audit committee review of the 2013/14 accounts in September 2014.

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Challenge questions

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?;
- spending on different components of waste management compares with authorities that have similar or better performance?

Management response

The council has taken considerable steps towards reducing waste and landfill by increasing the range of materials recycled at the kerbside, operates its own household recycling centre, provides a garden waste bin collection scheme and promotes the 're-use' agenda. It has taken steps to reduce costs by creating a company with Cotswolds District council which has delivered savings for both councils. The council and its overview & scrutiny committee monitor performance on a regular basis. The council has joined the county wide partnership (Joint Waste committee) which includes the county council and other districts councils which is working towards further reduction in landfill and costs.

Consultation – Local Government Pension Scheme future structure

Local government guidance

Local Government Pension Scheme (LGPS) reform

The DCLG (1 May 2014) published a summary of its 2013 call for evidence on the future structure of the local government pension scheme, along with its own conclusions and has launched a formal consultation on these. Consultation responses are required by 11 July 2014. <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

Having considered a cost/benefit analysis of mergers from actuarial firm Hymans Robertson, the DCLG said it would not force funds to merge, but is instead consulting on the following proposals:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

The potential proposed changes, whilst not as radical as the previously considered merger proposals, remain nonetheless significant for the management of pension funds. DCLG believe the implementation of the proposed changes would significantly reduce investment costs across the LGPS nationally.

Challenge question

Has your officers briefed members on the potential implications of the government's proposed LGPS reform for the future management of the locally administered LGPS and is the fund preparing a consultation response?

Management Response

The cabinet member for Finance and the Leader of the council have been briefed on the reforms. The section 151 Officer is planning to submit a response supporting the proposals.

Events

Grant Thornton

Events

We are involved in organising and supporting various events for our local government clients including the following.

- Following on from our recent national report on welfare reform Reaping the Benefits we are continuing to gather information and examples of good practice from local government and housing around the country. We are presenting our key findings updated information on good practice to CIPFA Benefits and Revenues Network and regional CIPFA events
- We are sponsoring the Centre for Public Scrutiny (CFPS) annual Scrutiny Camp Unconference in London on 11 June
- We are also sponsoring The Municipal Journal's annual Growth Agenda conference on 4 June where we will be launching our Where Growth Happens report
- For the third year running we are sponsoring the conference drinks reception at CIPFA's Annual Conference, taking place in London on 2 July
- Paul Grady, Grant Thornton's Head of Police, will be speaking at the third Annual National Conference on Police and Crime Commissioners on 10 July, in Nottingham
- We are hosting an Alternative Delivery Models seminar at our Birmingham office in 16 July where practitioners will share experiences of setting up and operating various alternative delivery models.
- Locally we are planning workshops for LG Chairs of Audit



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10 April 2014

Dear Andrew

Planned audit fee for 2014/15

The Audit Commission has set its proposed work programme and scales of fees for 2014/15. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2014/15 has been set by the Audit Commission at £64,974, which is the same as for 2013/14.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The only 2014/15 claim for which the Audit Commission currently intends issuing an instruction to its appointed auditors to certify is the Housing Benefit Claim.

The Council's composite indicative grant certification scale fee for 2014/15 has been set by the Audit Commission at £12,020.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2014	16,243.50
December 2014	16,243.50
March 2015	16,243.50
June 2015	16,243.50
Grant Certification	
December 2015	12,020
Total	76,994

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2014 to March 2015. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July /September 2015 and work on the whole of government accounts return in July to September 2015.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	TBC	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July / August 2015	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to Sept 2015	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July to Sept 2015	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2015	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to November 2015	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2014/15 are:

	Name	Phone Number	E-mail
Engagement Lead	Peter Barber	0117 305 7784 07780 456122	peter.a.barber@uk.gt.com
Engagement Manager	Peter Smith	0117 305 7832 07780 456140	peter.w.smith@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact John Golding, our Public Sector Assurance regional lead partner at john.golding@uk.gt.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Barber', with a stylized flourish at the end.

Peter Barber
For Grant Thornton UK LLP

cc Mark Sheldon (Director of Resources)
Paul Jones (Deputy Section 151 Officer)

**Cheltenham Borough Council
Audit Committee – 18th June 2014
Internal Audit Annual Report**

Accountable member	Cabinet Member Corporate Services, Councillor Jon Walklett
Accountable officer	Head of Audit Cotswolds – Robert Milford
Ward(s) affected	All
Key Decision	
Executive summary	<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.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p>None directly arising from this report</p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>None directly arising from the recommendations in this report</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>It is noted that a number of the Audits are in draft and some are ongoing. No HR implications at this time.</p> <p>Contact officer: Amanda Attfield, Head of HR, GOSS Amanda.attfield@cheltenham.gov.uk, 01242 264186</p>
Key risks	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>

<p>Corporate and community plan Implications</p>	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an 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.” (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
<p>Environmental and climate change implications</p>	<p>None.</p>

AuditCotswolds



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



CHELtenham
BOROUGH COUNCIL

ANNUAL INTERNAL AUDIT OPINION
Cheltenham Borough Council

Annual Internal Audit Opinion 2013-14

Introduction

In April 2012 Cheltenham Borough Council and West Oxfordshire District Council delegated their Internal Audit services to Cotswold District Council. This partnership is known as 'Audit Cotswolds' and provides the internal audit services for the Council. This service is required by statute. A significant part of the modern role of the service is the provision of a broad control evaluation function, by either offering or supporting control assurances gained through activities like risk management, performance management, complaints systems and external inspection.

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

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

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

Responsibilities

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

Opinion on the overall adequacy and effectiveness of the control environment

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

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

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

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

The Council's Annual Governance Statement (AGS)

The opinion of the Head of Internal Audit on the control environment forms part of the evidence supporting the Council's Annual Governance Statement. The primary basis for this opinion is the work undertaken during the year, this is detailed within Appendix 1(i). There were matters arising from the work during the year that are deemed a significant control weakness by a 'limited assurance' opinion, and others that have been drawn

to our attention, control issues relate to those areas below with a fuller explanation of each area of concern being given in my annual assurance opinion;

- Car parking – Regents Arcade
- PSN Network submission
- Art Gallery and Museum – budget position

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

Compliance with the Internal Audit Code of Practice

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

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

This year due to the changes in the internal audit standards, this assessment for 2013-14 has been made in respect of the new Public Sector Internal Audit Standards (PSIAS) which apply from 1 April 2013. An assessment regarding adherence to the new standards was reported to the Audit Partnership Board and to the Audit Committee in June 2013.

Quality Assurance Arrangements and Performance

There is a two stage review process to ensure the quality of the service. The first stage has been briefly mentioned above and is in the form of the Audit Partnership Board. The Audit Partnership Board operates under a Terms of Reference that was adopted on the 1st April 2012 as part of the Section 101 Agreement. The Terms of Reference clearly identify under the section 'Responsibility' that there is a requirement for the Partnership Board to monitor performance and effectiveness.

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

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

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

During 2013/14 the Head of Internal Audit has experienced periods of absence due to ill-health and this has resulted in increased responsibility for quality being accepted by Principal Auditors. As this matter continues, at 31 March 2014 an interim Head of Internal Audit has been appointed to lead the assurance service during the opening months of 2014/15.

Effectiveness of Internal Audit

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

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

Developing the Internal Audit planning process

The Audit Plan for 2013-14 was developed using a risk based process. In accordance with professional best practice there has been an increasing link between audit activity and the Council's risk management process and several reviews were undertaken on areas identified in risk registers. Although the audit plan approved at the start of the year is the basis for the year's activities the service needs to be responsive to emerging risks. Examples in 2013-14 of unplanned work includes:

Resourcing

The internal audit service is delivered by Audit Cotswolds. This partnership has enhanced the resilience and skills base of the service. The service through 2013-14 was delivered by a team with the following professional institute backgrounds:

- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Chartered Institute of Internal Auditors (CMIIA/PIIA)
- Chartered Management Institute (CMI)
- Chartered Institute of Management Accountants (CIMA)
- Association of Chartered Certified Accountants (ACCA)
- Institute of Management Services (IMS)
- Institute of Accounting Technicians (AAT)

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

Audit Cotswolds has provided audit assurance to the GO Shared Service with a working relationship with the Internal Audit team at the Forest of Dean DC.

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

Training undertaken during the year

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

- Continuing professional development – CIPFA audit training seminars
- IIA professional update sessions and attendance at the South West region conference
- Attendance at the CIPFA annual audit conference

- A member of the team is in their final year of the 'MSc Audit Management and Consultancy' which embodies the Chartered Institute of Internal Auditors professional qualification.

Conclusion

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

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

Robert Milford

Head of Internal Audit (Audit Cotswolds)



Cheltenham Borough Council

DRAFT

Cheltenham Borough Council

Head of Audit Cotswolds & Head of Internal Audit

Opinion on the effectiveness of the system of Internal Control for the year ended 31 March 2014

Roles and responsibilities

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

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

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

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

The Head of Internal Audit Opinion

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

My opinion is set out as follows:

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

My **overall opinion** is that:

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

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

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

Additional areas of work that support my opinion;

3. The outcome of other external inspections of internal control systems throughout the year, for example reports provided by Grant Thornton

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

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

A table of internal audit work in 2013-14 is detailed in **Appendix (i)**

This has again been an extraordinary year for change in this authority and it is likely that this position will remain in the foreseeable future. The control environment within key financial systems has undergone significant changes and that of other front line services continues to develop. There is still scope to improve the arrangements for some of the key governance activities examined and these are being actively progressed both through the management arrangements, which is supported by agreed action plans, some following internal audit reviews.

During 2013/14 there were areas where a 'Limited Assurance' opinion was deemed appropriate or that showed a significant risk in control or governance that warrants further detail in this report:

- PSN Submission 2013 – significant concerns were raised by the HM Cabinet Office following the submission in June 2013 resulting in the need to produce further evidence to demonstrate effective governance and control of arrangements relating to the provision of IT services. Follow up work by internal audit has provided assurance that appropriate actions have been taken to resolve issues with remaining risks relating to the failure of the submission having been appropriately dealt with, some of which remain outstanding at 31 May 2014 and may need to be resolved prior to submission of the next PSN in June 2014.
- Car Parks Audit – a review of arrangements for car parking at Regents Arcade has identified issues regarding the implementation and management of new systems based on vehicle recognition software. It has been identified that the Council may be experiencing a loss of revenue under the current arrangements and this will be subject to further internal audit work in early 2014/15 to identify the extent of the potential problem.

Additionally we are aware that:

- Art Gallery and Museum – a report has been commissioned from Grant Thornton regarding over-spending in this area in 2013/14 regarding which feedback is anticipated to be received in June 2014.

In 2013/14 audit monitoring reports were presented to the Audit Committee. These reports provided details of audit activity quarterly through the year. Within these reports details of all finalised audit reports were provided for Audit Committee as summaries.

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

The assessments reported from other review and inspection processes

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

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

Other assessments considered

- The annual Certificates of Assurance (control self assessments by management)
- The other control assurance statements and supporting evidence which are considered in the completion of the Annual Governance Statement.

Robert Milford

Head of Internal Audit (Audit Cotswolds)



Cheltenham Borough Council

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Table of internal audit work in 2013/14

Appendix 1(i)

AUDIT ACTIVITY / REVIEW AREAS & ASSURANCE LEVELS				
The table below provides a summary of the internal audit service activities and assurances gained.				
	Audit Activity	Assurance Opinion (if relevant)	Status	Type
1	Governance Compliance - RIPA Policy & Compliance	Advice report	Final	Assurance
2	Annual Governance Statement (AGS)	Draft -Validation of the AGS	Draft	Assurance
3	Performance Management	Deferred		
4	Change Programme & VFM Leisure and Culture Trust	N/A	On-going	Consultancy
5	Cash Receipting and Cash Handling	Satisfactory	Final	Assurance
6	PSN review – replaced ICT audit	Satisfactory progress made but subject to on-going review	Final	Assurance & Consultancy
7	Council Tax	Satisfactory	Draft	Assurance
8	NNDR	Satisfactory	Draft	Assurance
9	Housing Benefits	High	Final	Assurance
10	ICT shared service	See no.6		
11	Financial Audits			
12	Services provided by GOSS <ul style="list-style-type: none"> • Payroll • Main Accounting (Including Bank Reconciliation) • Treasury Management • Budgetary Control and Capital Accounting • Accounts Receivable • Accounts Payable (Assurance from SWAP – FoDDC Internal Auditors) 	Satisfactory Satisfactory High High Satisfactory Satisfactory	Draft Final Final Final Draft Final	Assurance
13	Financial processes falling within the Council's control (e.g. transaction control) <ul style="list-style-type: none"> • Payroll • Main Accounting (Including Bank Reconciliation) • Treasury Management • Budgetary Control and Capital Accounting • Accounts Receivable (AR) • Accounts Payable 	Anticipated to be High/Satisfactory	Draft report to be issued on completion of AR detailed audit testing	Assurance
14	Bridging the Gap	High	Final	Assurance
15	Transparency agenda	High	Draft	Assurance
16	Ubico Ltd Service Delivery	Satisfactory	Final	Assurance
17	Business Continuity (ICT arrangements) linked to PSN	See no.6		
18	Commissioning - Leisure & Culture Project (Commissioning / Trust Development)	N/A	On-going	Consultancy
19	Grants	Satisfactory	Draft	Assurance
20	Community Safety - Play area enhancement	High	Final	Assurance

21	Information Management	See no.6		
22	Health & Safety	Interim Advice Memo	Final	Assurance
23	Property Maintenance Programme	Satisfactory	Draft	Assurance
24	Car Parking Services	Limited	Final	Assurance
25	PSN SWG	N/A	On-going	Consultancy

End.

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**Cheltenham Borough Council
Audit Committee – 18th June 2013
Counter Fraud Report 2013-14**

Accountable member	Cabinet member corporate services
Accountable officer	Head of Audit Cotswolds – Robert Milford
Ward(s) affected	All
Key Decision	No
Executive summary	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) published a paper “<i>Delivering good governance in Local Government; Addendum, December 2012</i>”. In this paper there is a table of elements that are recognised as key in an authority’s governance framework. One of these elements is:</p> <p style="text-align: center;"><i>“ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.”</i></p> <p>This report sets out the Counter Fraud work conducted through 2013 / 14.</p>
Recommendations	That the Committee considers the report and makes comments as necessary.

Financial implications	<p><i>The activity highlighted in this report demonstrates our actions to protect the public purse.</i></p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p><i>None specific arising from the report recommendation.</i></p> <p>Contact officer: Vikki Fennell, vikki.fennell@tewkesbury.gov.uk, 01684 272015</p>

<p>HR implications (including learning and organisational development)</p>	<p><i>No direct additional HR implications arising from the content of this report.</i></p> <p>Contact officer: Julie McCarthy, HR Manager</p> <p>julie.mccarthy@cheltenham.gov.uk,</p> <p>01242 26 4355</p>
<p>Key risks</p>	<p>That the authority is susceptible to fraud, corruption and bribery due to insufficient controls in place to Acknowledge, Prevent and or Pursue counter fraud activity.</p>
<p>Corporate and community plan Implications</p>	<p>In administering its responsibilities; this Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective Counter Fraud and Corruption culture, by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities. Thus supporting corporate and community plans.</p>

1. Background

1.1 In 2011 the Local Government Fraud Strategy “Fighting Fraud Locally” was published that sets out the approach to fraud that is now expected of Local Government. The stated vision is that “*by 2015 Local Government will be better able to protect itself from fraud and have in place a more effective fraud response.*” It goes on to indicate three areas of focus:

1. Acknowledge
2. Prevent
3. Pursue

1.2 The Audit Commission published their document “Protecting the Public Purse 2012” which sets out a series of recommendations that Councils should inter alia “*maintain a capability to investigate non-housing benefit related fraud, proportionate to the risk*” and “*assess the potential benefits and cost savings of greater joint working with other Councils.*”

1.3 This is the annual Counter Fraud Report for this authority and the report sets out the counter-fraud and anti-corruption arrangements in this authority and the results of activity for 2013~14 set out in terms of:

- Acknowledgement,
- Prevent and
- Pursue.

2. Reasons for recommendations

2.1 The Audit Committee is the group charged with governance responsibilities at this authority and as such should receive reports on the governance framework.

3. Annual Counter Fraud Report

3.1 A report highlighting the areas reviewed is shown in Appendix 1

Report author	Robert Milford , Head of Audit Cotswolds 01242 775174, Robert.milford@cheltenham.gov.uk
Appendices	1. Counter Fraud Report 2013~14
Background information	None

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

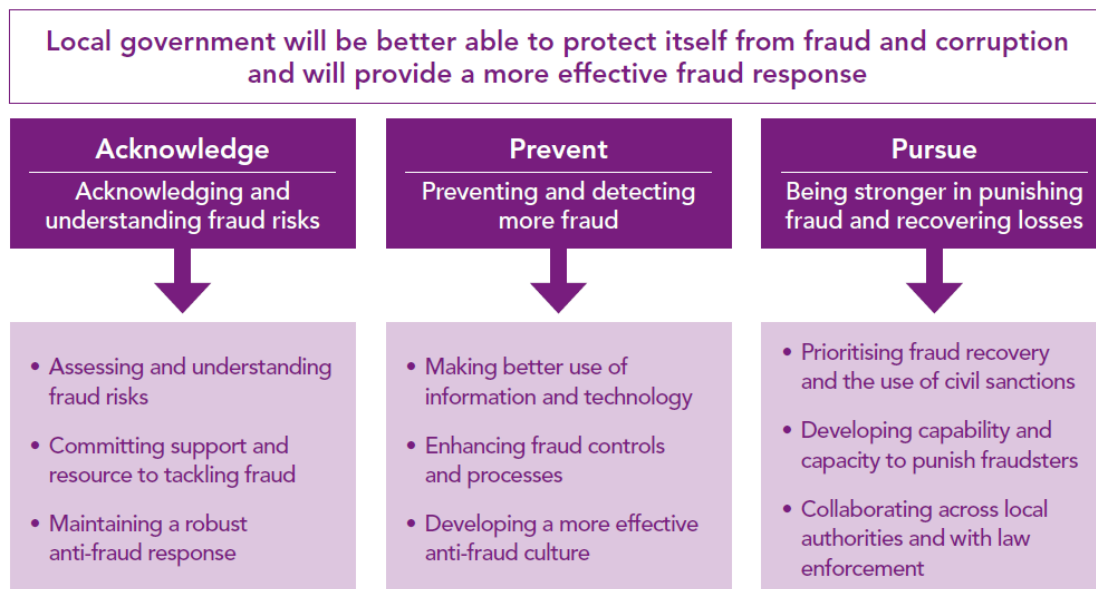


COUNTER FRAUD REPORT 2013-14
Cheltenham Borough Council

Counter Fraud Report 2013-14

1. Introduction

1.1 In 2011 the Local Government Fraud Strategy “Fighting Fraud Locally” was published that sets out the approach to fraud that is now expected of Local Government. The stated vision is that “*by 2015 Local Government will be better able to protect itself from fraud and have in place a more effective fraud response.*” It goes on to indicate three areas of focus as shown in the table below:



1.2 The Audit Commission published their document “Protecting the Public Purse 2012” which sets out a series of recommendations that Councils should inter alia “*maintain a capability to investigate non-housing benefit related fraud, proportionate to the risk*” and “*assess the potential benefits and cost savings of greater joint working with other Councils.*” This was reiterated in the Protecting the Public Purse 2013.

1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a paper “*Delivering good governance in Local Government; Addendum, December 2012*”. In this paper there is a table of elements that

are recognised key in an authority's governance framework. One of these elements is:

“ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.”

1.4 This is the second annual Counter Fraud Report for this authority and the report sets out the counter-fraud and anti-corruption arrangements in this authority and the results of activity for 2013~14 set out in terms of:

- Acknowledgement,
- Prevent and
- Pursue.

1.5 Although the focus of these reports is on the criminal level fraud it is considered good practice to approach any possible 'fraud' investigation with the criminality element fully considered even if the final result is disciplinary only. Therefore the results of relevant non-criminal fraud action have also been included.

2. Acknowledgement

2.1 In the latter part of 2011/12 a fraud survey was completed by this Council for the Audit Commission. This outlined approximately 28 areas for the authority to consider in terms of types of fraud and tools required to address them. Although this authority was able to positively respond to the survey it was recognised by Internal Audit and the Benefit Fraud Team that more could be done. In 2013/14 this survey was coordinated and submitted by Audit Cotswolds and further proactive Counter Fraud actions were undertaken as set out below.

2.2 The report “Protecting the Public Purse 2012” (PPP12) has been considered by Audit Cotswolds in order to plan the proactive counter fraud work for 2013/14. Within the report there is an appendix checklist for counter fraud and this is being used by the Audit Cotswolds to assess the current counter fraud system.

- 2.3 The first task was to align the policies of counter fraud across the partners and agree the approach with Corporate Management. The new Counter Fraud Policy has now been approved across the Audit Cotswolds partners.
- 2.4 A dedicated resource (the Senior Investigating Officer) from Cheltenham has been working with the Head of Audit Cotswolds to assess the feasibility of a dedicated Counter Fraud Unit or Hub. The report (PPP12) provides a focus on social housing fraud / tenancy fraud and therefore part of the feasibility study included engagement with the Gloucestershire Tenancy Fraud Forum to aid in the recovery of properties, recognising that Cheltenham Borough Homes Ltd is part of this forum. Results of this engagement are show below.
- 2.5 In terms of recognising the risks of fraud the internal audit plan for 2013/14 included an allocation of days for investigation and participation in such schemes as the National Fraud Initiative (NFI). One of the Senior Auditors in Audit Cotswolds is designated as the key contact for NFI across the partnership.
- 2.6 Moreover, Audit Cotswolds conducted an awareness week in September 2013 at Cheltenham Borough Council, coordinated with Cheltenham Borough Homes Ltd and their Tenancy Fraud awareness week. This activity included, a display and walk-in workshop in the Municipal Offices, intranet prompts and posters across the offices. For 2014/15 further awareness work is planned, including a full training programme.
- 2.7 Audit Cotswolds is continuing to review the possibility of a dedicated Counter Fraud Unit or Hub. This is reinforced by the continuation of the Department of Work and Pensions Single Fraud Investigation Service (DWPSFIS) plans to partially takeover the investigation of some aspects of the benefit fraud teams' work. It has been seen that the DWPSFIS is not going to cover all aspects of their work and indeed there is an understood deminimus level to which they will investigate i.e. £2000 or more. The expectation is that some, if not all, benefit fraud staff could transfer to DWPSFIS, thus taking valuable skills away from the Council's control. Therefore a business case for a dedicated Counter Fraud Unit or hub is now underway.

3. Prevent

- 3.1 Audit Cotswolds acts as the key contact for NFI, which is a data matching exercise that matches data from multiple sources that may indicate possible fraudulent activity. For example, payroll to benefit data can be matched to indicate if someone is fraudulently claiming benefits. This activity continued through 2013/14.
- 3.2 The key element arising from the PPP12 was the general breadth of fraud issues. Although there are counter measures in place at this authority there is always a potential for fraud to occur and the Head of Audit Cotswolds in conjunction with the Senior Investigations Officer has been reviewing the list of potential areas. These are then being risk assessed based on known factors at this authority e.g. when the last Single Person Discount review was undertaken for Council Tax, etc.
- 3.3 In March 2013 the internal audit plan was approved and it included time to help promote an anti-fraud culture and proactively check systems where risks of fraud have been stated in the above reports, for example, Payroll, Transparency Agenda, ICT Security, Benefits, Council Tax and NNDR.
- 3.4 One of the tools kept under review for fraud investigations is the Regulation of Investigatory Powers Act. This covers surveillance and communications data. This authority did not use these powers in 2013/14, instead using alternative tools. However, training was undertaken by key officers in January 2013 that may require this tool.
- 3.5 In 2013/14 links with Cheltenham Borough Homes Ltd and housing associations in the area were enhanced to identify routes to investigate tenancy fraud.
- 3.6 Basic tools have been used through the year to raise awareness, such as, leaflets for new employees and general awareness for Members. However, this will be built on through 2014/15 to include more awareness training for managers and staff.

4. Pursue

4.1 The focus of 2013/14 activity has been to resource and deliver a more proactive approach to counter fraud activity. This has included early liaison with Legal Services with the aim to be prepared that if more proactive work triggers more reporting of possible frauds then the relevant services are able to pursue.

4.2 In terms of pursuing fraud for 2013/14 from the benefit fraud team (see table 1).

A number of joint investigations with the Department of Work Pensions helped with overpayments. This is from two investigation officers. These officers have identified that there is an increase in cases involving capital (other houses as well as undeclared funds) and also more forged documents, and expect this trend to continue

Table 1

Benefit Fraud	
Prosecutions:	20
Adpens:	23
Cautions:	31
Monetary Value:	£157,817.79
Non sanction value:	£72,463.68
If a case is sanctioned then this protects the debt should the person then go bankrupt.	

4.3 Once benefit fraud work goes to DWPSFIS, we as a local authority, can still offer a caution for offences or take to court. This will be useful in other investigations such as NNDR/CT as well as procurement fraud.

4.4 We have worked with Cheltenham Borough Homes Ltd and helped in the recovery of approx 20 properties – the value of these is £18,000 each property according to the Audit Commission. This is based on the cost of emergency housing for a family. We have two cases coming to court in July 2014 for fraudulent applications and we interviewed another for Cheltenham Borough Homes Ltd and currently have another one we are just starting.

- 4.5 We are the only authority attending the Gloucestershire Tenancy Fraud Forum which has been set up by local social landlords and is seen as one of the most successful in the country. The new Prevention of Social Housing Fraud Act 2013 came in last year and allows local authorities to work on behalf of housing associations in this field. The new powers also allow landlords to recover money through the civil courts from tenants who illegally sublet their properties. We are currently assisting a Housing Association in an investigation and have taken actions which will assist in the recovery of a property.
- 4.6 With regards to the DWPSFIS threshold of £2000 we are looking at how best to tackle this to ensure costs to the authority are kept to a minimum and the overpayment is recovered. It is understood that when Universal Credit comes in Housing Benefit will be a low priority debt therefore it is in our best interests to prevent as many as we can.
- 4.7 From our use of the Council Tax system there are landlords who still don't pay their Council Tax, sometimes they own more than one property. The law allows us to put a charging order on a property and force a sale, a course of action that could be publicised (you don't have to name names) which would 'encourage' others to pay. This is also being considered as part of the overall business case and possible remit of the Counter Fraud Unit.
- 4.8 We are also waiting for further information from colleagues in Bristol concerning their work on student discounts and CT – one example they gave was the non existent places of education. We are considering this risk when reviewing our systems in 2014/15. This is information that could be made use of by others should an investment be made in some type of data warehousing system, again something being considered for a Counter Fraud Unit.
- 4.9 Currently we assist the police with their data protection requests. Not only does this assist the police in their enquiries it has given us a number of leads for investigations, such as non residents, non dependents, living together etc. The police are feeding back information to us following a search which is proving very useful. We also assist other local authorities, as they assist us,

in investigations from making an interview room available to actually conducting the interview (we charge for this service).

4.10 Right To Buy – this is believed to be an area of risk. The value of prevention is deemed to be the maximum discount being claimed, although in real terms such a loss is the cost of building a similar property. It can give people a step onto the housing ladder. We do assist One Legal with some checks, and have picked up some cases by identifying people who allege they live at the house. We did identify one case last year where someone wished to join in the RTB but they had not actually lived at the address.

4.11 A lot of the work recommended by the Audit Commission will be preventative i.e. saving the council money rather than try to claw it back. It is believed that there is a substantial benefit to be found in policing the NNDR and CT systems; with the anticipated result of payment rates improving if the worse offenders faced criminal proceedings and this was publicised. Non payment of NNDR has been stated in many cases to be much more deliberate and more complex, thus more of an investigation would be required. However again there could be more scope for recovery in terms of assets and a huge benefit to be gained from positive publicity.

4.12 Table 2 below shows a case that was publicised in 2013/14:

Table 2

<p>Council Tax review helps to find £36,000 benefit fraud</p> <p>A Cheltenham claimant has been given a suspended jail term following her conviction for benefit fraud. Sylvia Halford claimed that she lived alone in her flat and claimed income support, housing benefit and council tax benefit as she didn't work.</p> <p>She was caught following a review of single person discount claims in 2012. A 25% discount can be claimed off council tax bills if a person is the sole adult occupier of a property. The situation is regularly checked to pick up changes.</p> <p>The review in 2012 highlighted another name at the address and the subsequent investigation resulted in Ms Halford admitting that she had dishonestly claimed benefits from Cheltenham Borough Council and the Department for Work & Pensions totalling in excess of £36,000. She was given two suspended sentences of 3 months each, and ordered to carry out 150 hours of unpaid work as well as paying the Council's costs.</p> <p>Mark Sheldon, Director of Resources said "Fraudulently claiming benefits is a criminal offence. We have vigorous systems in place to make sure that people are claiming fairly and honestly; as in this case, we will take action against those who break the law"</p>
--

The council tax review for 2013 is currently underway – if you have any queries about your eligibility please ring the council tax helpline on 01242 264161. It is a criminal offence to claim a discount to which you are not entitled.

To report benefit fraud please ring 01242 264215. This is a 24 hour number on which you can leave details regarding any alleged fraud.



5. Conclusion

- 5.1 This is the second of these reports and this will be reviewed for inclusion of any further information, frequency and format over the next 12 months.
- 5.2 There is a proactive anti-fraud culture being developed across the Audit Cotswolds partnership working with the Benefit Fraud Teams and other services.

Robert Milford
Head of Internal Audit
Cheltenham Borough Council

working with

Ruth Jones
Senior Investigating Officer

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Audit Committee 2014-2015 work plan

Item	Officer	Decision / Discussion / Information
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24 September 2014		
Send work plan to GT:	Chairs briefing: Tbc – w/c	Complete reports by: 12 September 2014
Audit update report		Grant Thornton Discussion
Audit highlights memorandum - ISA 260 (for the previous year)		Grant Thornton Discussion
Financial Resilience report (for current year)		Grant Thornton Discussion
Internal audit monitoring report		Rob Milford Tbc
Review of annual statement of accounts		Finance Team Tbc
Revenue and benefits commissioning review (governance arrangements)		Mark Sheldon Tbc
Art Gallery and Museum refurbishment project review		Grant Thornton Decision
14 January 2015		
Send work plan to GT:	Chairs briefing: Tbc – w/c	Complete reports by: 2 January 2015
Audit update report		Grant Thornton Discussion
Annual audit letter (for the previous year)		Grant Thornton Discussion
Certification of grants and returns (for the previous year)		Grant Thornton Discussion
Internal audit monitoring report		Rob Milford Tbc
Annual governance statement – significant issues action plan		Bryan Parsons Decision
25 March 2015		
Send work plan to GT:	Chairs briefing: Tbc – w/c xx	Complete reports by: 13 March 2015
Audit update report		Grant Thornton Discussion
Audit plan (for the current year)		Grant Thornton Discussion
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

Audit Committee 2014-2015 work plan

Item		Officer	Decision / Discussion / Information
Annual review of risk management policy		Bryan Parsons	Decision
Approval of the Code of Corporate Governance		Bryan Parsons	Decision
17 June 2015			
Send work plan to GT:	Chairs briefing:	Complete reports by:	
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 Audit Fee Letter 2015/16		Grant Thornton	Discussion
Annual counter fraud report		Rob Milford	Tbc

Items to be added at a future date (future dates will not be agreed until March 2015)		
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 JASWG and recs arising	Mark Sheldon	Tbc

ANNUAL ITEMS (standing items to be added to the work plan each year)			
January	Audit update report	Grant Thornton	Discussion
	Annual audit letter (for the previous year)	Grant Thornton	Discussion

Audit Committee 2014-2015 work plan

	Item	Officer	Decision / Discussion / Information
	Certification of grants and returns (for the previous year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Tbc
	Annual governance statement – significant issues action plan	Bryan Parsons	Decision
March	Audit update report	Grant Thornton	Discussion
	Audit plan (for the current year)	Grant Thornton	Discussion
	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
June	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 Audit Fee letter for the coming year	Grant Thornton	Discussion
	Annual counter fraud report	Rob Milford	Tbc
September	Audit update report	Grant Thornton	Discussion
	Audit highlights memorandum - ISA 260 (for the previous year)	Grant Thornton	Discussion
	Financial Resilience report (for current year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Tbc
	Review of annual statement of accounts	Finance Team	Tbc

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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A guide to local authority accounts

March 2014



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Movement in reserves statement	4
Comprehensive income and expenditure statement	6
Balance sheet	8
Other statements	9
Additional disclosures	10
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Introduction

This guide is designed to help members of audit committees discharge their responsibilities for the financial statements. It aims to help them understand and challenge the accounts, supporting notes and other statements.

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

However, local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. IFRS provides a comprehensive framework (over 3,000 pages of mandatory requirements) for the production of financial statements in the public and private sector. This framework is continually being refined.

We have prepared this guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

“It sounds extraordinary, but it’s a fact that balance sheets can make fascinating reading.”

Mary Archer
British scientist



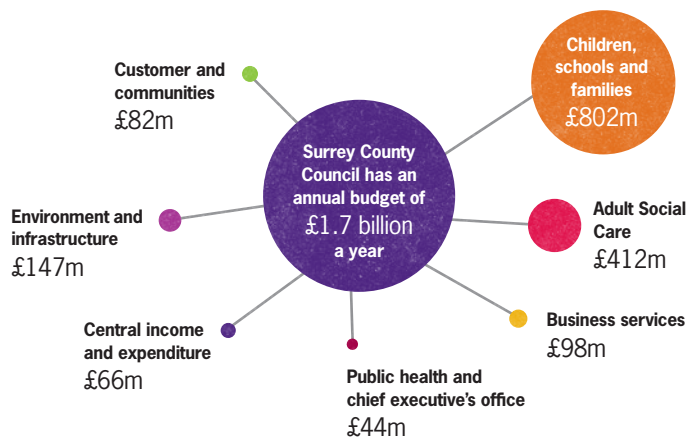
Explanatory foreword

The purpose of the explanatory foreword is to provide a commentary on the financial statements. It should include an explanation of key events and their effect on the financial statements.

The information included in the explanatory foreword should not be a surprise and should be familiar to you from the budget reports provided during the year. The explanatory foreword should therefore ideally also reconcile the year end financial position reported to members (the outturn) to the statutory financial accounts.

However, in a recent survey on governance, conducted by Grant Thornton, 40% of respondents did not agree that the explanatory foreword aids public understanding of local government accounts. Too often, explanatory forewords repeat key elements of the accounts and run the risk of being overly long, rather than provide a clear commentary in plain English. This indicates there is still some way to go before the explanatory foreword achieves its purpose.

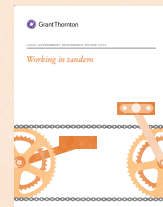
Key financial information should be clearly explained and authorities should consider the best way to present it. Below is an example of the presentation of financial information that we consider to be helpful.



Challenge questions

- 1 Does the explanatory foreword provide a clear summary of the authority's financial performance and financial position at the year end?
- 2 Is the summary in line with your expectations? Is the financial performance in line with budget reports? Are the key events described in the explanatory foreword those you expected to see?
- 3 Can you trace the figures to the financial statements? Are they consistent?
- 4 If last year's figures have been restated, is the reason clearly explained?
- 5 Is there a better way that this information could be presented or communicated?

For more information, see **Grant Thornton's Local Government Governance Review 2014**



Annual governance statement

The annual governance statement (AGS) sets out the arrangements the authority has put in place to manage and mitigate the risks it faces when meeting its responsibilities. The AGS should give the reader a clear sense of the risks facing the authority and the controls in place to manage them.

While the AGS is prepared by the authority at the end of the year, it should be built up from processes designed, run and tested throughout the year. There should be no surprises for members of the audit committee as all of the issues described should already have been discussed. However, surprises can occur if the first sight of the document is not until June. We recommend making the AGS an iterative document which is presented in draft to audit committee members towards the end of the calendar year.

The AGS should be consistent with:

- the rest of the financial statements
- internal audit findings
- the results of any external inspections of the authority during the year.

Challenge questions

- 1 Is the content of the AGS consistent with your knowledge of the operations of the authority over the year?
- 2 Does the AGS succinctly describe the control environment in an understandable way?
- 3 In particular, does the AGS include:
 - all significant risks that you were aware of during the year?
 - the actions the authority is taking to address the identified risks?

Only 65% of respondents to our survey agreed that the AGS helps the public to understand how the organisation manages risk.



Movement in reserves statement

Reserves represent the authority's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable.



Usable reserves

- Result from the authority's activities
- Can be spent in the future
- Include:
 - general fund
 - earmarked reserves
 - capital receipts reserve

The level of usable reserves, the spending plans of the authority and other sources of funding will determine how much council tax needs to be raised.

The movement in reserves statement (MIRS) analyses the changes in each of the authority's reserves from year to year. It should be clear to see what has caused the movement in each reserve. The statement shows:

- **opening balances** – these should be the same as the previous year's closing balances
- **total income or expenditure for the year** – this should agree with the comprehensive income and expenditure account
- **statutory transfers between reserves** – these are made as the result of regulation
- **voluntary transfers between reserves** – these are made as the result of the authority's decisions
- **closing balances** – these should agree to those on the balance sheet.

Transfers between reserves should not result in a change in the overall level of reserves.

Unusable reserves

- Derive from accounting adjustments
- Cannot be spent
- Include:
 - pensions reserve
 - revaluation reserve
 - capital adjustment account

Statutory transfers are adjustments that are made to usable reserves to:

- remove transactions that are required by accounting standards
- add transactions required by statute.

For example, accounting standards require depreciation to be charged to the general fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the general fund. Depreciation is therefore taken out of the general fund and replaced with the minimum revenue provision (MRP). The MRP represents the authority's estimate of how much it should contribute to capital expenditure each year and is approved by members at the start of every year.

Voluntary transfers include the earmarking of reserves. Members may choose to earmark reserves, putting aside cash to deliver specific longer-term objectives, such as the replacement of vehicles, plant and equipment. The purpose and usage of each earmarked reserve should be clearly set out.

Challenge questions

- 1 Are the movements in the two types of reserves shown in separate tables?
- 2 Do the opening balances agree with last year? Have any restatements been clearly explained?
- 3 Do the figures in the MIRS agree to the comprehensive income and expenditure statement?
- 4 Can you trace the figures in the MIRS to the relevant notes? Do the notes adequately explain the major movements?
- 5 Are the purposes of the material earmarked reserves consistent with the authority's objectives and the authority's decisions?

For more information, see **Grant Thornton's Approving the MRP Policy**



Comprehensive income and expenditure statement

The comprehensive income and expenditure statement (CIES) reports on how the authority performed during the year and whether its operations resulted in a surplus or deficit.

The CIES is sometimes described as a 'film' of all the transactions in the year. It includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

The CIES shows the accounting position of the authority before statutory overrides are applied. It analyses income and expenditure based on services. This means that it does not have the same headings you see in commercial financial statements.

The standard format of the CIES means that it will differ from the layout in your budget book, which will be based on your authority's own activities and internal reporting needs. A note to the accounts should reconcile the figures reported internally to those included in the CIES.



Five broad sections within the CIES

Cost of services	Presented in a standardised format as set out by the 'Service reporting code of practice for local authorities'. Includes service specific income and expenditure. Any large and/or unusual items which may affect the reader's view of the accounts should be disclosed separately.
Other operating income and expenditure	Includes the surplus or deficit from the sale of property, plant and equipment.
Financing and investment income and expenditure	Includes interest payable and receivable.
Taxation and general grant income	Includes revenue from council tax and the revenue support grant.
Other comprehensive income and expenditure	Items which are not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

Challenge questions

- 1 Does the CIES reflect the financial performance of your authority as you know it?
- 2 Have there been significant changes year on year? If so, are these clearly explained?
- 3 Is there a detailed note to reconcile the CIES to budget reports? Is it easy to find? Can you trace the figures through?



Balance sheet

The balance sheet is a ‘snapshot’ of the authority’s financial position at a specific point in time, showing what it owns and owes at 31 March.

The balance sheet is always divided into two halves that should, as the name suggests, balance:

- assets less liabilities (the top half)
- reserves (the bottom half).

Non current assets including:	Non-current assets have a life of more than one year. For most authorities the biggest balance by far is property, plant and equipment. These are tangible assets that are used to deliver the authority’s objectives. With some exceptions they need to be shown at a value based on market prices. Changes in valuations are matched by changes in reserves (generally the revaluation reserve). The cost of property, plant and equipment is spread over the period in which it is used by charging depreciation.
<ul style="list-style-type: none"> • property, plant and equipment • heritage assets • intangible assets • investment property 	
Current assets	Includes cash and other assets that, in the normal course of business, will be turned into cash within a year from the balance sheet date. Other assets include investments, non-current assets held for sale, inventories and debtors.
Current liabilities	Comprises short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance. Receipts in advance arise when the authority receives income this year for expenditure it will incur, or services it will provide, in future years.
Long-term liabilities	Includes borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There will also be an estimate for the cost of meeting the authority’s pension obligations earned by past and current members of the pension scheme.
Provisions	Represent future liabilities of the authority, but there is uncertainty about how much the authority owes or when it will have to pay.
Reserves	These are usable and unusable reserves.

Challenge questions

- 1 Have any significant changes between years been sufficiently explained?
- 2 Are there clear references to the notes where more detailed information is available?
- 3 Are the changes in property, plant and equipment what you would expect, based on any major disposals of assets, the authority’s capital programme and movements in market prices?
- 4 Are movements in investments and borrowing consistent with the authority’s treasury plans and with the cash movements in the cash flow statement?
- 5 Are the reasons for provisions and details of how they have been calculated clearly shown?
- 6 Do the reserves in the balance sheet agree to the balances in the movement in reserves statement?

Other statements

A number of other statements will be included within the financial statements, though not all will be relevant to every authority.

Cash flow statement	<p>Sets out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities.</p> <p>Cash flows are related to income and expenditure, but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the CIES when the transactions occurred, not when the cash was paid or received.</p> <p>The Local Authority Code of Practice allows two different methods of presentation to be used, and therefore formats may vary between neighbouring authorities.</p>
Collection fund	Shows the transactions in respect of council tax and business rates during the year.
Housing revenue account	Shows the transactions in respect of council housing during the year. It is ring-fenced, so it cannot subsidise or be subsidised by other activities.
Pension fund accounts	Included within the financial statements of a pension fund administering authority, such as a county or unitary council. Shows the transactions and net assets/liabilities of the pension fund as a whole.
Group accounts	Prepared if the authority has a significant subsidiary, such as a local authority trading company. Shows the combined income and expenditure and balances of all the constituent bodies.

Challenge questions

- 1 Have any significant changes between years been sufficiently explained?
- 2 Are there clear references to the notes where more detailed information is available?



Additional disclosures

The notes to the financial statements are generally the least read part of any set of accounts. This is because they appear complicated and are rarely written in plain English.

However, additional disclosures include important information and provide the context for the figures in the primary financial statements.

Accounting policies	Set out the accounting rules the authority has followed in compiling its financial statements, for example that land and buildings are shown at valuation rather than at cost. They are largely specified by International Financial Reporting Standards and the Local Authority Code of Practice. Authorities have limited discretion to amend them, but should: <ul style="list-style-type: none"> • provide additional information where needed • remove accounting policies that are not relevant or apply to immaterial amounts.
Critical judgments	Show the key areas where officers have made judgements about the application of accounting policies. For example: <ul style="list-style-type: none"> • classification of leases and public finance initiative (PFI) schemes • identification of provisions • impairment of assets. <p>The aim is to highlight key areas of the accounts where others may have made different judgments about the accounting treatment.</p>
Estimates	The authority may need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there is a significant risk the estimate will need to be materially adjusted next year.
Property, plant and equipment	Details about assets acquired and disposed of during the year, whether they have been revalued, the impact of any changes in value and the amount of depreciation charged.
Leases and PFI schemes	Set out how much will be paid annually to leasing companies and how much will be paid in total over the lifetime of the agreement.
Employee remuneration	Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes show the annual cost and cumulative liabilities of pensions.
Contingent liabilities	Details of possible costs that the authority may need to meet, but has not charged to the CIES because it thinks that it will probably be able to avoid them. The most common contingent liability is for legal claims.

Challenge questions

- 1 Have you already seen and been able to comment on the proposed accounting policies?
- 2 Are you comfortable with the critical judgements disclosed?
- 3 Do the figures reported in the financial statements agree to those included in the relevant notes?
- 4 Are the notes easy to find and follow?
- 5 Is too much information included? Could it be better presented?

And finally...

Once you have completed your review of the detail, you may wish to reflect upon the financial statements as a whole and what could be done to improve the process for future years.

About the financial statements

- 1 Are they clear, concise and easy to follow?
- 2 Are they presented in the best format? Could graphs or diagrams be used to help explain information more easily?
- 3 Is detailed information on the most important items easy to find?
- 4 Are technical terms explained in plain English? Is there a glossary?
- 5 Is it clear how a reader could find out more information?
- 6 Where are the accounts to be published? Are they easy to find?

About the process

- 1 Does your authority recognise that producing robust financial statements is important for strong financial governance?
- 2 Has your authority set targets to produce shorter, clearer, earlier financial statements?
- 3 What support can you give your officers to meet these challenges? Do they have sufficient resources? Are they given enough support from senior management?
- 4 What support do you need to help you discharge your responsibilities? Are there any areas in which you need training?

For more information, see **Grant Thornton's Declutter your accounts – top 10 tips**



CIPFA's Financial statements: a good practice guide for local authorities



About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 185 partners and employing over 4,200 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county

councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector.

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

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